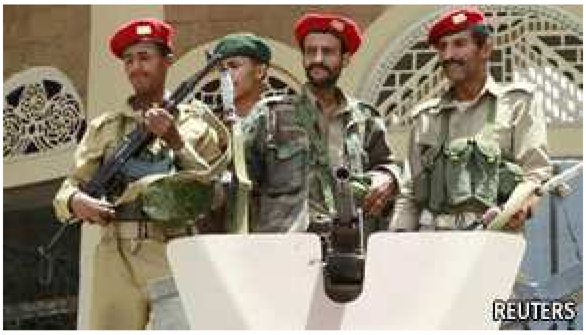
The Economist

June 11th, 2011

Politics this week



Ali Abdullah Saleh, **Yemen's** embattled president, finally left the country for Saudi Arabia after being wounded during an attack on his compound on June 3rd. He may not return. Meanwhile, fighting and strife persisted in many parts of the country. See article

Protests against **Syria's** government spread and intensified. The regime said that "armed gangs" in the town of Jisr al-Shughour had killed 120 members of the security forces, but the claims were impossible to verify. At least 70 protesters in the city of Hama were reported to have been killed. See article

Tunisia's interim government cited technical reasons for postponing the country's first election since the removal in January of Zine el-Abidine Ben Ali, its longtime dictator. Calling for an end to a wave of strikes, the interim prime minister promised that elections, originally scheduled for next month, would be held on October 23rd.

Hundreds of **Palestinians** living in Syria tried to breach the Israeli border on the Golan Heights. At least eight were killed. See article

The outgoing speaker of **Nigeria's** parliament, Dimeji Bankole, pleaded not guilty to 16 counts of corruption after he allegedly secured $65m in loans using public assets.

A tough road ahead

Portugal's general election was won by the centre-right Social Democrats. Pedro Passos Coelho, the party's leader, will become prime minister later this month. His most pressing task will be to begin implementing a euro78 billion ($115 billion) bail-out agreed on by the previous, Socialist-led administration with the European Union and the IMF. See article

Dominique Strauss-Kahn, the French former head of the IMF, appeared in court in New York to plead not guilty to the sexual assault and attempted rape of a hotel chambermaid. A trial is not expected to begin for several months. See article

Alyaksandr Lukashenka, the authoritarian president of **Belarus**, secured agreement for a $3 billion loan from a Russian-controlled regional bail-out fund. A sharp devaluation of the Belarusian rouble in May and a large current-account deficit have left the economy tottering. Mr Lukashenka is also seeking help from the IMF.

Confusion reigned over the outbreak of a strain of *E. coli* in **Germany** that has killed 26 people and infected thousands more. The authorities said an organic bean-sprout farm near Hamburg may have been responsible, but tests seemed to suggest otherwise. Farmers from Spain, which Germany had earlier incorrectly identified as the source of the outbreak, demanded compensation over lost vegetable sales.

Double trouble

Japan's nuclear agency announced that the reactors at the tsunami-damaged Fukushima plant released twice as much radiation as had been estimated (amounting to a fifth of Chernobyl's leaked radiation). The government apologised to the world for raising concerns about the safety of nuclear power.

An American drone attack in **Pakistan** may have killed Ilyas Kashmiri, an al-Qaeda commander and potential successor to Osama bin Laden. But Pakistani and American officials were unable to agree on whether he really had been killed. See article

India's most popular television yogi, Baba Ramdev, began a fast in Delhi against corruption and led 50,000 followers in a demonstration. A day later baton-wielding police broke up the protesters' camp, injuring dozens of activists. The Hindu-nationalist opposition party adopted Mr Ramdev's cause and other anti-corruption campaigners joined him in fasting. See article

Australia imposed a ban on the export of live cattle to **Indonesia** after a public outcry over the maltreatment of Australian cattle at Indonesian abattoirs. Indonesia is Australia's biggest market for live cattle exports.

Bowing out

Austan Goolsbee said he was stepping down as chairman of the Council of Economic Advisers to return to academic life. Mr Goolsbee has been advising Barack Obama since 2004. His decision to leave the White House came after the release of more economic data that underscore the listlessness of the recovery. See article

Mr Obama reached a new low point for his handling of the **economy** and the deficit in a *Washington Post*/ABC poll. The survey put Mitt Romney, the Republican presidential front-runner, running neck-and-neck with the president at the election. Tim Pawlenty, another Republican contender, unveiled his economic plan, which calls for much deeper spending cuts than the ones being discussed on Capitol Hill and $2 trillion in tax cuts, which many called unrealistic.

A grand jury charged **John Edwards**, who ran for the Democratic presidential nomination in 2008, with breaking campaign-finance laws by allegedly using donations to cover up an extramarital affair.

After a week of denials, **Anthony Weiner**, a combative Democratic congressman from New York, admitted that he had sent a photograph of himself in his underpants to a young woman online and had had lewd exchanges with at least six other women. Mr Weiner's ambition to become mayor of New York is probably over. See article

The hullabaloo over Humala

Ollanta Humala, a former army officer of elastic left-of-centre views, was elected as **Peru's** next president. He defeated Keiko Fujimori, the daughter of a corrupt former president, by 51.5% to 48.5%. Lima's stockmarket swooned after the election result, but then recovered somewhat. See article

Antonio Palocci resigned as chief of staff to **Brazil's** president, Dilma Rousseff, as criticism continued of the lucrative consulting business he ran during his time as a federal congressman from 2006 to 2010. Mr Palocci was replaced by Gleisi Hoffmann, a little-known senator for the ruling Workers' Party. See article

A judge in **Chile** opened an investigation into the death of Pablo Neruda, a Nobel prize-winning poet and Communist, who passed away in hospital 12 days after a military coup in 1973 that toppled the Socialist government of Salvador Allende. The same judge is investigating the death of Mr Allende, although an eyewitness and the former president's family have long maintained that he committed suicide.

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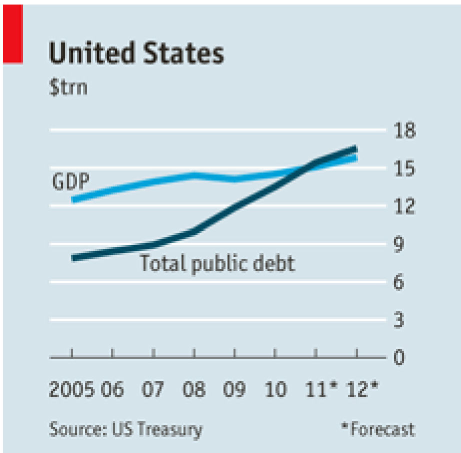
Business this week

Ben Bernanke gave warning that "monetary policy cannot be a panacea" for **America's economy**, a sign taken by many that the Federal Reserve is not minded to introduce a third round of quantitative easing, or QE3, when the current programme of buying $600 billion in bonds and other assets comes to an end this month. The central bank's chairman acknowledged that the recovery was "frustratingly slow". Just 54,000 jobs were created in May; analysts were expecting the number to be around 165,000. See article



In an annual report to Congress the Treasury estimated that America's **total public debt** will exceed GDP by the end of this year, around three years earlier than forecast in its previous report in 2010.

Peter Diamond pulled out of the nomination process to become a governor on the board of the **Federal Reserve**, blaming Republican senators for blocking his appointment. Barack Obama nominated Mr Diamond in April 2010, but Republicans insist he has little experience of monetary policy or banking. Mr Diamond won a Nobel prize in 2010 for his work on labour markets and the causes of unemployment. Two vacancies remain on the Fed's seven-member board of governors. See article

Regard for Lagarde

Christine Lagarde, the French finance minister, went to India and China to drum up support for her candidacy to become the next managing director of the **IMF**. Both countries remained uncommitted to any candidate after her visit. The Indian government said it preferred "to be part of a consensus". Meanwhile, Agustin Carstens, the governor of Mexico's central bank, implored developing countries to back his bid to head the IMF.

Wolfgang SchÃ¤uble, Germany's finance minister, put forward the option of extending maturities on **Greek bonds** for seven years for current bondholders. With the details of an additional bail-out for Greece still to be hammered out,

Germany wants private investors to share the burden. It is at odds with the European Central Bank, which thinks that any form of restructuring would be viewed as a Greek default by the markets. See article

Over a barrel

Oil prices rose sharply when ministers from **OPEC** nations failed to reach agreement on raising production levels. Markets were expecting the organisation collectively to increase output by up to 1.5m barrels of oil a day after Saudi Arabia and other Gulf states proposed the move. They were opposed by Iran. See article

The UN Food and Agriculture Organisation forecast a record harvest in cereals this year, but said this might not be enough to replenish rundown inventories. The FAO's **food-price index** for May was slightly lower than in April, but still only 2.5% below its all-time peak in February.

Tokyo Electric Power Company, which operates the stricken Fukushima nuclear plant, saw its share price plunge by 28% after the head of the Tokyo Stock Exchange suggested that it seek a court-guided path to bankruptcy similar to that taken by Japan Airlines. JAL was delisted from the exchange and its equity wiped out when it asked for bankruptcy protection.

British Airways became the latest airline to settle a class-action lawsuit in America for participating with other carriers in fixing cargo prices between 2000 and 2006. It agreed to pay $89.5m. BA and others have already been fined in America and Europe for operating the cartel.

It emerged that **Prada** is hoping to raise up to $3 billion in its initial public offering later this month, a considerably higher amount than had been thought. The luxury-goods and fashion house is making its stockmarket debut in Hong Kong (making it the first Italian firm to list there) rather than London or Milan, another sign of the growing spending power of Asian consumers.

Groupies

The news that **Groupon** is to launch a much-heralded IPO led to more talk about a tech bubble. The firm promotes online discounts for services and products. Although revenue has shot up over the past year, it has yet to make a profit. Google approached Groupon with a hefty takeover offer last year, but it was rejected. See article

Steve Jobs unveiled **Apple's** new cloud-computing service, which will become available in the autumn. Users will be able to store up to five gigabytes of content free on iCloud and play music purchased from iTunes across multiple Apple gadgets, rather than just the one used to access the track. Documents, such as books and software apps, will also be more accessible. Apple's iCloud is considered the most ambitious attempt yet to create a broad-based consumer service that lets people keep information and content up to date on numerous devices. See article

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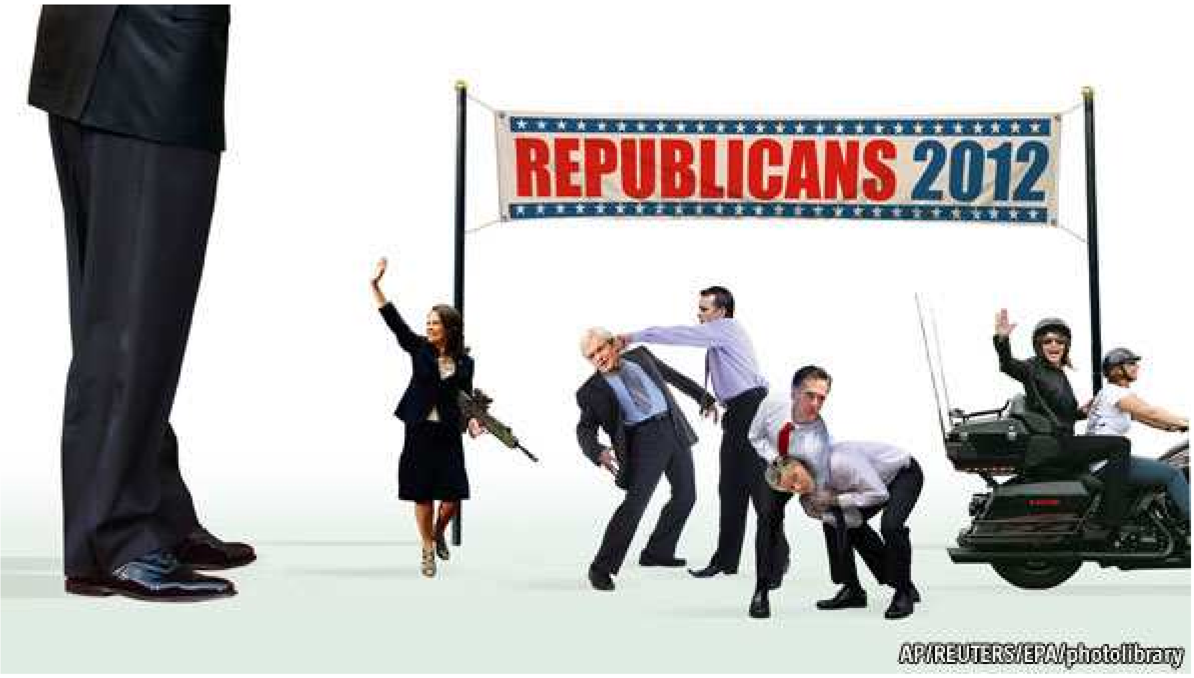
Barack Obama and the Republicans

A beatable president

But only if a Republican candidate starts laying out a sensible plan for the American economy



NEXT week a collection of largely unknown Republicans will hold the first proper TV debate of the 2012 presidential campaign. Whoever eventually wins their party's nomination then has to take on Barack Obama, the giant of American

politics. The president has a huge war-chest, his own party firmly behind him and a rare capacity to inspire. Yet he is vulnerable. This week a poll showed him in a dead heat with Mitt Romney, the Republican front-runner. America's sluggish recovery will give any challenger a chance. The question is whether any Republican has the personality and especially the ideas to take him on. For the best way to make this race competitive-and the best thing for America-is to force voters to confront the hard choices their country has to make.

This time, Mr President, you are playing Goliath

In terms of the horse race, an incumbent president (especially if he is without a primary challenger) usually has a head start. While the Republicans spend the next year clobbering each other, Mr Obama can appear statesmanlike and husband his resources. His approval rating is in the 50s, better than Bill Clinton's at this stage in the proceedings in 1995, before he went on to score a solid victory against Bob Dole in 1996.

But whereas that Clinton race should encourage Mr Obama, the previous one should worry him. In spring 1991 George Bush senior was coasting towards re-election; by November 1992 the president was toast-and the main reason was a sluggish economy. This recovery, in the wake of the worst financial shock since 1929, is even slower. Growth in the first quarter was a feeble 1.8%. The unemployment rate actually rose, to 9.1%, in May: the rate of job creation is barely keeping track with the natural increase in the working-age population. Twice as many Americans think the country is on the wrong track as the right one. Many of the places where Americans feel angriest are battleground states: Florida, Michigan and Ohio all saw big Republican gains in the 2010 mid-terms.

In 2008 Mr Obama represented change. This time he will have to fend off charges that he is to blame for the achingly slow recovery by arguing that it would have been worse without his actions, such as his $800 billion stimulus package and the takeover of GM and Chrysler. That may be true but it is not easy to sell a counterfactual on the stump (as the first President Bush learned). And there are other holes in Mr Obama's record. What happened to his promises to do something about the environment or immigration or Guantanamo? Why should any businessman support a chief executive who has let his friends in the labour movement run amok and who let his health-care bill be written by Democrats in Congress? Above all, why has he never produced a credible plan to tackle the budget deficit, currently close to 10% of GDP?

Asking these questions will surely give any Republican a perch in this race. But to beat the president, the Republicans need both a credible candidate and credible policies.

In terms of talent, the current line-up is not without hope (see article). Jon Huntsman, Tim Pawlenty and Mr Romney have all been first-rate governors: they can claim the sort of hands-on experience of government that Mr Obama so signally lacked in 2008. Mr Romney could get it right this time (see Lexington); or the more charismatic Mr Huntsman could soar. All the same, there are other current and former governors who this newspaper wishes were in the race-notably Jeb Bush, Chris Christie, Mitch Daniels and Rick Perry. As for Sarah Palin, her antics are helping no one, other than Mr Obama; she should put up, or preferably shut up. Michele Bachmann, a right-wing congresswoman, can carry the tea-party banner.

Yes you can-if we can afford it

Talent is less of a problem than policies. A serious Republican candidate must come up with answers to the two big problems facing America's economy: how to get more people back to work, and how to fix the deficit. The first requires a swathe of bold structural reforms to boost jobs and growth, the second a credible plan to balance the books in the medium term that does not wreck the economy in the short term.

When it comes to encouraging jobs, the Republican failure is largely one of inventiveness. They focus merely on tax cuts and slashing red tape. But what about a big new push to free up trade? Or an overhaul of the antiquated unemployment-insurance scheme and worker-training programmes that gets business more involved? Or serious immigration reform?

The Republican failure on the deficit is more serious. Mr Obama is deeply vulnerable here, not least because he is still trying to kid Americans that their fiscal future can be shored up merely by taxing the rich more. But the Republican solution of tax cuts and even deeper spending cuts (typified by Mr Pawlenty's proposals this week) is arguably worse. Most of the burden of repairing America's public finances should certainly fall on spending. But the deficit is simply too

large to close through spending cuts alone. The overall tax take-at its lowest, as a share of GDP, in decades-must eventually rise.

An honest Republican candidate would acknowledge this and lay out the right way to do so-for instance, by eliminating distorting loopholes and thus allowing revenues to rise. He (or she) would also come up with a more systematic plan on the spending side. No Republican seems to understand the difference between good spending and bad. Investment in roads and education, for instance, ought not to be lumped in with costly and unreformed entitlements, like Social Security and Medicare. Defence should not be sacrosanct. That Mr Obama has no strategy either is not an excuse.

In most elections promising toughness is not a successful tactic; but this time Americans know that their country has huge problems and that their nation's finances are the biggest problem of all. In Britain the Conservatives made the incumbent Gordon Brown seem ridiculous by spelling out the austerity that he at first barely dared mention; now another tough-talking centre-right party has won in Portugal (see article). If ever there was a time for pragmatic conservative realism, it is now. Mr Obama might also bear that in mind.

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Silvio Berlusconi's record

The man who screwed an entire country

The Berlusconi era will haunt Italy for years to come

SILVIO BERLUSCONI has a lot to smile about. In his 74 years, he has created a media empire that made him Italy's richest man. He has dominated politics since 1994 and is now Italy's longest-serving prime minister since Mussolini. He has survived countless forecasts of his imminent departure. Yet despite his personal successes, he has been a disaster as a national leader-in three ways.

Two of them are well known. The first is the lurid saga of his "Bunga Bunga" sex parties, one of which has led to the unedifying spectacle of a prime minister being put on trial in Milan on charges of paying for sex with a minor. The Rubygate trial has besmirched not just Mr Berlusconi, but also his country.

However shameful the sexual scandal has been, its impact on Mr Berlusconi's performance as a politician has been limited, so this newspaper has largely ignored it. We have, however, long protested about his second failing: his financial shenanigans. Over the years, he has been tried more than a dozen times for fraud, false accounting or bribery. His defenders claim that he has never been convicted, but this is untrue. Several cases have seen convictions, only for them to be set aside because the convoluted proceedings led to trials being timed out by a statute of limitations-at least twice because Mr Berlusconi himself changed the law. That was why this newspaper argued in April 2001 that he was unfit to lead Italy.

We have seen no reason to change that verdict. But it is now clear that neither the dodgy sex nor the dubious business history should be the main reason for Italians looking back on Mr Berlusconi as a disastrous, even malign, failure. Worst by far has been a third defect: his total disregard for the economic condition of his country. Perhaps because of the distraction of his legal tangles, he has failed in almost nine years as prime minister to remedy or even really to acknowledge Italy's grave economic weaknesses. As a result, he will leave behind him a country in dire straits.

A chronic disease, not an acute one

That grim conclusion might surprise students of the euro crisis. Thanks to the tight fiscal policy of Mr Berlusconi's finance minister, Giulio Tremonti, Italy has so far escaped the markets' wrath. Ireland, not Italy, is the I in the PIGS (with Portugal, Greece and Spain). Italy avoided a housing bubble; its banks did not go bust. Employment held up: the unemployment rate is 8%, compared with over 20% in Spain. The budget deficit in 2011 will be 4% of GDP, against 6% in France.

Yet these reassuring numbers are deceptive. Italy's economic illness is not the acute sort, but a chronic disease that slowly gnaws away at vitality. When Europe's economies shrink, Italy's shrinks more; when they grow, it grows less. As our special report in this week's issue points out, only Zimbabwe and Haiti had lower GDP growth than Italy in the decade to 2010. In fact GDP per head in Italy actually fell. Lack of growth means that, despite Mr Tremonti, the public debt is still 120% of GDP, the rich world's third-biggest. This is all the more worrying given the rapid ageing of Italy's population.

Low average unemployment disguises some sharp variations. A quarter of young people-far more in parts of the depressed south-are jobless. The female-participation rate in the workforce is 46%, the lowest in western Europe. A mix of low productivity and high wages is eroding competitiveness: whereas productivity rose by a fifth in America and a tenth in Britain in the decade to 2010, in Italy it fell by 5%. Italy comes 80th in the World Bank's "Doing Business" index, below Belarus and Mongolia, and 48th in the World Economic Forum's competitiveness rankings, behind Indonesia and Barbados.

The Bank of Italy's outgoing governor, Mario Draghi, spelt things out recently in a hard-hitting farewell speech (before taking the reins at the European Central Bank). He insisted that the economy desperately needs big structural reforms. He pinpointed stagnant productivity and attacked government policies that "fail to encourage, and often hamper, [Italy's] development", such as delays in the civil-justice system, poor universities, a lack of competition in public and private services, a two-tier labour market with protected insiders and exposed outsiders, and too few big firms.

All these things are beginning to affect Italy's justly acclaimed quality of life. Infrastructure is getting shabbier. Public services are stretched. The environment is suffering. Real incomes are at best stagnant. Ambitious young Italians are quitting their country in droves, leaving power in the hands of an elderly and out-of-touch elite. Few Europeans despise their pampered politicians as much as Italians do.

Eppur si muove

When this newspaper first denounced Mr Berlusconi, many Italian businesspeople replied that only his roguish, entrepreneurial chutzpah offered any chance to modernise the economy. Nobody claims that now. Instead they offer the excuse that the fault is not his; it is their unreformable country's.

Yet the notion that change is impossible is not just defeatist but also wrong. In the mid-1990s successive Italian governments, desperate not to be left out of the euro, pushed through some impressive reforms. Even Mr Berlusconi has occasionally managed to pass some liberalising measures in between battling the courts: back in 2003 the Biagi labour-market law cut red tape at the bottom, boosting employment, and many economists have praised Italy's pension reforms.

He might have done much more had he used his vast power and popularity to do something other than protect his own interests. Entrepreneurial Italy will pay dearly for his pleasures.

And if Mr Berlusconi's successors are as negligent as he is? The euro crisis is forcing Greece, Portugal and Spain to push through huge reforms in the teeth of popular protest. In the short term, this will hurt; in the long term, it should give the peripheral economies new zip. Some are also likely to cut their debt burden by restructuring. An unreformed and stagnant Italy, with a public debt stuck at over 120% of GDP, would then find itself exposed as the biggest backmarker in the euro. The culprit? Mr Berlusconi, who will no doubt be smiling still.

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Yemen and the Arab awakening

Who's next?

A third Arab dictator has gone. Two more look shakier than ever

HALF a year after angry Arabs began to take on their dictators, despatching those in Tunisia and Egypt in short order, a sense of frustration and uncertainty seemed to slow the momentum of hopeful change. After the Libyans had risen up, followed by Yemenis, Bahrainis and Syrians, momentum stalled. The monarchs of the Gulf stood firm. Bahrain's disgruntled Shia majority was put back in its box, with a harsh Saudi hand. Libya's Muammar Qaddafi has defied NATO's bombardment. Syria's Bashar Assad, so the consensus held, would keep a brutal lid on dissent. And Yemen's Ali Abdullah Saleh, famously adept at "dancing on the heads of snakes", might go on juggling factions and tribes for a long while yet.

No more. Mr Saleh has flown to neighbouring Saudi Arabia after being wounded in an attack-and seems unlikely to return. Colonel Qaddafi and Mr Assad (see article) are feeling the heat as never before. The consensus is shifting. The momentum for change across the region may be returning. The Arab spring may yet turn to summer.

But that does not herald harmony. Yemen is the Arabs' least governable country. It is unclear what or who comes next there. The Saudis, at the head of the Gulf Co-operation Council, had thrice nearly persuaded Mr Saleh to hand over within a month to a vice-president who, after another two months, would then oversee elections. With the Saudis able to squeeze

the oxygen tube at his hospital bed, they can surely tell him to sign up to his own political demise. But holdovers from the old regime, led by his son, who commands the republican guard, may fight on. And even if they went too, the Arab world's poorest country would face daunting challenges. In Yemen tribal loyalties far outgun, often literally, those who seek to build democracy and civil institutions. A northern clan, the Houthis, is beyond the reach of central government. The south may try to secede. Al-Qaeda cells pockmark the fastnesses of the east. Oil and water are running out. And the Yemeni habit of chewing a leaf called *qat*, a mild stimulant not conducive to clear thinking or dynamism, is almost as pervasive as ever.

Western governments all agree that tackling poverty-bringing literacy and health care, for instance-is the best way to build the country. But such noble aims cannot be achieved amid civil strife. Meanwhile the West must rely mainly on the rich and powerful Saudis to cut a deal to provide for the official opposition and representatives of the street protesters, neither of whom is at one, to persuade what is left of Mr Saleh's administration to accept a free election.

An awkward ally

But therein lies another conundrum. The West needs the co-operation of Saudi Arabia to bring even a modicum of peace to Yemen and to handle many other testing issues in the Arab world. The kingdom can do more than any other country to set the price of oil on the global market. It is a crucial ally in the battle against violent Islamist extremism. It opposes the nuclear ambitions of Iran. Its largesse keeps the restive citizenry of the Gulf quiet-and will be vitally required to help crank up the creaking economies of Egypt, Tunisia and Libya.

Yet the Saudis are themselves a problem. As Arabs everywhere thirst for democracy-or at least for a bigger say in running their lives-Saudi Arabia's ageing ruling princes face a succession crisis, disdain women's rights, wink at corruption, pander to the forces of religious intolerance, and swat their own and neighbouring democrats. While asking them to be the region's fixer, the West must nonetheless frankly tell them they cannot resist the winds of reform for ever, any more than did their hapless unlamented former protege, Mr Saleh.

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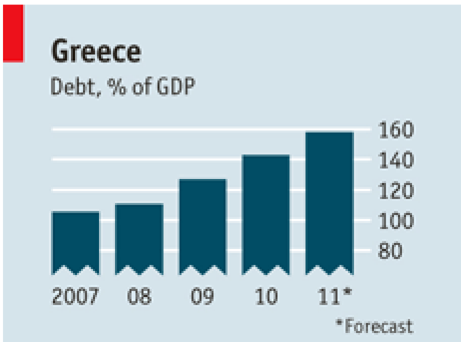
Greece's debt crisis

Bail-out 2.0

The latest plan to rescue Greece merely puts off the inevitable day of reckoning



AN IRREVERENT official at the International Monetary Fund recently installed a jarring ringtone on his mobile phone. It is the sound of cans being kicked down a road. That, alas, is what Europe's politicians and the IMF look set to do with their latest rescue plan for Greece. Though the details are still being hammered out, it is already clear that the package-likely to involve an extra euro85 billion ($125 billion) or so-goes only part way, at best, towards dealing with Greece's economic woes.

Those problems are by now painfully well known. First, Greece's moribund economy is hopelessly uncompetitive. Since membership of the euro rules out the fillip of a cheaper currency, the country's only route to growth is through deep reforms that slash costs and boost productivity. Second, the government is bust. Despite the austerity of the past year, introduced as part of Greece's first rescue package, its primary budget (ie, even before debt payments) is still deeply in deficit. Under any realistic assumptions for future growth and interest rates, its stock of debt, at 150% of GDP and rising, is unpayable.

Dealing decisively with the Greek mess means addressing both the lack of competitiveness and the insolvency. The new rescue plan makes progress on the former, but does little on the latter. As a result, even if the Greeks do everything that is asked of them (itself a big if), another crisis will loom before long.

Under pressure, Greece's government has cut spending and raised taxes worth some 7% of GDP. It has taken an axe to the country's absurdly generous pension system and started to free up the economy, for instance by easing entry into some 150 restricted professions. That is good, as far as it goes. But the reform momentum has been lost in recent months, something that the new rescue package seeks to address.

In return for more outside help, Greece's government has agreed to more fiscal austerity and yet bolder reforms, including privatisation. By 2015 it plans to raise euro50 billion (the equivalent of around 20% of GDP) from selling government-owned land and stakes in firms, especially in infrastructure and utilities. This is politically controversial in Athens (see article), but well-designed state sell-offs can both boost an economy's efficiency and raise funds. Nor is Greece's ambition unprecedented: between 1985 and 1999 nine countries, including Portugal, sold state assets worth more than 20% of their GDP-though none did so as quickly as Greece plans to. So a poorly prepared sale could backfire but the thrust is correct.

It's broke, fix it

The case for much tougher fiscal austerity is less clear. Greece plainly needs to move to a primary budget surplus. At issue is what size and how fast. More austerity, at least in the short term, means a weaker economy-and without growth Greece cannot put its crisis behind it. In asking the Greeks to do a lot more, quickly, there is a danger that the rescuers will go too far. No wonder, then, that getting the Greek parliament to approve the deal may not be easy.

The new plan's biggest shortcoming, however, is its attitude to Greece's debt. The original rescue plan assumed that, starting in 2012, Greece would issue new bonds to pay off maturing ones. With such market access now out of the question, the new bail-out envisages more loans from the EU and IMF, along with some "voluntary" participation by private bondholders. Germany would like the maturities of all Greek bonds to be stretched by seven years. The European Central Bank has long resisted any such debt "reprofiling", though it seems to be warming towards an informal promise by some creditors, such as Greek banks, to buy more government bonds when their existing ones mature.

The practicality of such an informal promise is doubtful. And it won't solve the debt problem. When the new plan ends Greece will still owe more than it can possibly pay. More of that debt will be to official creditors, especially if the private bondholders play only a token role now. Restructuring at that point will be more costly for other governments and the IMF.

The rescuers think buying time reduces the risk of contagion from a Greek debt restructuring to other euro-zone countries. But the pall of an unsolved Greek mess will continue to hang over the euro zone, just as it has done for the past year. A half-baked "voluntary" participation by creditors today may make a restructuring tomorrow more, not less, complicated. And the domestic politics of savage austerity and ever-rising debt are poisonous. It would be far better to recognise reality and start an orderly restructuring of Greek debt now. That remains the only solution. Greece's alleged rescuers would do well to remember that if you kick a can down the road for long enough, it dents and eventually breaks.

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Post-disaster politics

A grand stitch-up or an election?

The prime minister's opponents want a grand coalition. That's a terrible idea

WHEN Naoto Kan moved into the prime minister's office a year ago, his wife, Nobuko, joked that she had packed only their summer clothes, fearing he would not survive for long. In fact, he has outlasted his four predecessors and, since March 11th, steered Japan through its worst disaster since the second world war. But his days are numbered. Plotters are seeking to replace his government with a "grand coalition".

That might be a good idea for Japan's old elite, which has been dispossessed by Mr Kan's party. The old factions relish the idea of another taste of power. But for Japan, letting those people into office would be an awful step backwards.

All sides are to blame for Japan's political mess, Mr Kan included. His leadership during the earthquake, tsunami and nuclear accident has been shaky, and neither he nor his Democratic Party of Japan (DPJ) now has much support.

Despite Mr Kan's obvious failings, nobody relishes a power vacuum. This is not a good time for a change of government. But Mr Kan is bound to leave office, for he has promised to quit. He bungled a confidence vote in parliament, and a huge package of emergency aid will pass only if he resigns. So now the question is not whether he will go, but what will replace him.

The establishment, including many of Japan's big businesses and *Yomiuri Shimbun*, the country's biggest-selling newspaper, is urging the parties to revive the old idea of a grand coalition. They say that parliamentary gridlock has delayed bills for rebuilding the disaster areas and jeopardised budget financing, and that a grand coalition is the only way the ruling DPJ can overcome the blocking vote wielded by the opposition Liberal Democratic Party (LDP). Japan might even realise overdue projects such as raising the consumption tax.

Trust the people

Experience suggests this is nonsense. Since it won a majority in the upper house last year, the LDP-led block has done nothing but obstruct reform, even when Mr Kan shared its ideas for strengthening the public finances. It sacrificed national interest to tactical advantage. There is no reason to think Japan's political class will suddenly forsake the habit of a lifetime. More likely, the DPJ and the LDP would simply fall into each other's arms like two old drunks.

The notion that Mr Kan's enemies in the LDP have much to offer Japan is an insult to the public's intelligence. The LDP was kicked out of office in 2009 by voters sick of a 55-year-old system in which the party colluded with bureaucrats and business to preserve power. This system produced an under-regulated, over-confident nuclear industry whose legacy is the

as-yet-unresolved Fukushima disaster. The LDP should be in the stocks, being pelted with Fukushima's radioactive vegetables, not relishing a return to government.

Rather than enter a grand coalition, the DPJ should go to the country. The disaster, for all the trauma it has caused, has created a chance for Japan to reform. It has revealed hidden depths of community spirit, local leadership, industrial strength and creativity in hitherto overlooked regions of Japan (see article). The nuclear crisis has revealed the need to curb the malign influence of powerful utilities such as Tokyo Electric Power (TEPCO). Decentralisation and utility reform would probably be anathema to a grand coalition, whose champions are natural power-grabbers and have spent their political careers beholden to outfits like TEPCO. But both are essential to Japan.

In some ways, this is a dreadful time to hold an election. Nobody in an evacuation shelter would relish the distraction; indeed some towns probably lost their voting records in the tsunami. Yet an election need not be a huge burden, and it could have advantages. It would give the victims of the tsunami and the nuclear disaster a chance to make their voices heard. The public could debate energy policy and decentralisation. Voters could even decide whether to raise consumption taxes.

The crisis has shone a harsh light on Japan's politicians. Letting people express their frustration with the system might just be a step on the way to changing it.

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IBM's centenary

The test of time

Which of today's technology giants might still be standing tall a century after their founding?

IT IS not, by any means, the world's oldest company. There are Japanese hotels dating back to the 8th century, German breweries that hail from the 11th and an Italian bank with roots in the 15th. What is unusual about IBM, which celebrates its 100th birthday next week, is that it has been so successful for so long in the fast-moving field of technology. How has it done it?

IBM's secret is that it is built around an idea that transcends any particular product or technology. Its strategy is to package technology for use by businesses. At first this meant making punch-card tabulators, but IBM moved on to magnetic-tape systems, mainframes, PCs, and most recently services and consulting. Building a company around an idea, rather than a specific technology, makes it easier to adapt when industry "platform shifts" occur (see article).

True, IBM's longevity is also due, in part, to dumb luck. It almost came unstuck early on because its bosses were hesitant to abandon punch cards. And it had a near-death experience in 1993 before Lou Gerstner realised that the best way to package technology for use by businesses was to focus on services. An elegant organising idea is no use if a company cannot come up with good products or services, or if it has clueless bosses. But on the basis of this simple formula-that a company should focus on an idea, rather than a technology-which of today's young tech giants look best placed to live to 100?

The most obvious example is Apple (founded in 1976). Like IBM, it had a near-death experience in the 1990s, and it is dangerously dependent on its founder, Steve Jobs. But it has a powerful organising idea: take the latest technology, package it in a simple, elegant form and sell it at a premium price. Apple has done this with personal computers, music players, smartphones and tablet computers, and is now moving into cloud-based services (see article). Each time it has grabbed an existing technology and produced an easier-to-use and prettier version than anyone else. This approach can be applied to whatever technology is flavour of the month: Apple has already shifted from PCs to mobile devices.

The animating idea of Amazon (founded in 1994) is to make it easy for people to buy stuff. It began by doing this for books, but has since applied the same idea to other products: music, groceries, mobile apps, even computing power and storage, which it sells on tap. The Kindle may resemble an e-reader, but it is just as much a portable bookstore. As new things come along, Amazon will make it easy for you to buy them. Similarly, the aim of Facebook (2004) is to help people share stuff with friends easily. This idea can be extended to almost anything on almost any platform.

Consider, by contrast, three product-based firms. Dell (founded in 1984) made its name building PCs more efficiently than anyone else and selling them direct to consumers. That model does not neatly transfer to other products. Cisco Systems (also 1984) makes internet routers. It has diversified into other areas, such as videoconferencing, but chiefly because it thought this would increase demand for routers. Microsoft (1975) is hugely dependent on Windows, which is its answer to everything. But software for a PC may not be the best choice to run inside a phone or a car. All these firms are wedded to specific products, not deeper philosophies, and are having trouble navigating technological shifts.

Other giants are still struggling to move beyond their core technologies. Oracle (1977) was originally a database company, which peddled databases as the answer to all its clients' problems. But in the past decade it has moved into other corporate software, and hardware too. Now it aims to provide entire computing systems. Google (1998) knows the importance of an idea. "Organising the world's information and making it universally accessible" is its motto, and it is putting that into practice on mobile devices through its Android software, which is spreading fast. But Google is still heavily dependent on a single product-internet search and related advertising.

Good to be elegant, better to be old

The upshot: Apple, Amazon and Facebook look like good long-term bets. Dell, Cisco and Microsoft do not. The jury is out on Oracle and Google. See you in 2111-provided, that is, that *The Economist* (founded in 1843, with the idea of explaining the world to its readers) is still around too.

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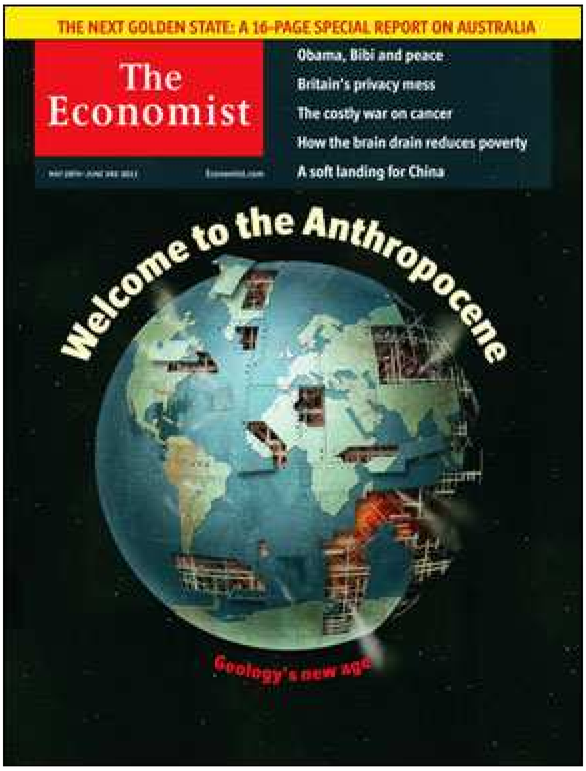
Letters

On the Anthropocene, North Sea oil, Australia, food safety

Letters are welcome via e-mail to letters@economist.com

The age of man



SIR - Your leader on the geological impact of human activity on the planet described geoengineering, which is the deliberate intervention in the climate system to counteract global warming, as a "dramatic change" designed to enhance the Earth's durability ("Welcome to the Anthropocene", May 28th). I would go further. The emerging debate over geoengineering is the principal forum in which old and new visions of nature and society are competing to guide our collective approach to life. Geoengineering is the most concrete embodiment of the recognition that humanity is now the dominant geological force on the planet, and must act accordingly.

In a world in which people have altered the climate system, it is not only inaccurate, but also irresponsible and even untenable to continue to view civilisation as separate and distinct from nature. The need for active, purposeful management of the Earth's systems clashes with a premise on which much of modernity, including environmentalism, is founded, namely, that man stands apart from nature. Geoengineering erases this distinction. Given the stakes, the arguments are certain to intensify.

Joshua Horton
Boston

SIR - Geoengineering, which would potentially scrub carbon from the sky, is the type of thinking that got us into this environmental mess in the first place. If we really do want to "think afresh" about our relationship with the planet, we should find solutions that avoid such high-risk projects.

Dan Saragosti
Montreal

SIR - A key element missing from your briefing is that human alterations to the planet over the past 50 years have degraded our ecosystems. We depend on properly functioning ecosystems for our well being, including providing freshwater, regulating the climate and controlling pollination. Restoring and sustaining these for growing populations and an unpredictable climate is the paramount challenge of our time.

As you said, we can "add to the planet's resilience, often through simple and piecemeal actions." Governments, the UN and some businesses, such as Mondi, Syngenta and Akzo Nobel, are using an ecosystem-services review to identify what they affect and depend upon. We need a concerted approach to repair our ecosystems. Otherwise, we will be fiddling as the Anthropocene comes to an abrupt end rather than moving toward the Sustainocene.

Janet Ranganathan
Frances Irwin
World Resources Institute
Washington, DC

* SIR - You quoted Henry David Thoreau as saying "In wilderness is the preservation of the world". This was slightly wrong. In "Walking", Thoreau actually wrote: "In wildness is the preservation of the world".

Daniel Shively
Indiana, Pennsylvania

* SIR - You said that "the natural fluxes in carbon dioxide into and out of the atmosphere are still more than ten times larger than the amount that humans put out every year by burning fossil fuels". True enough, but climate-change sceptics often pounce on this fact to pooh-pooh the anthropogenic impact from the burning of fossil fuels.

Although you went on to recognise that human activity causes these natural flows to become unbalanced, it can actually take only two or three decades for humans to cumulatively emit an amount that matches those natural fluxes, given how long carbon dioxide persists in the atmosphere and the low amount that the earth can absorb each year.

Anant Sundaram
Hanover, New Hampshire

Britain's oil

SIR - You don't need to be a Scottish nationalist first minister or an oil-industry lobbyist to be concerned about tax changes that may deter the recovery of even a drop of North Sea oil ("A deeper hole", May 28th). Britain's primary energy balance has been in deficit for seven years now, and is worsening by the month. This year it is likely to be 63m tonnes of oil equivalent and next year it may reach 70m tonnes.

"Peak coal" for Britain passed in 1913, peak oil in 1994 and peak gas in 2000. Peak nuclear, at least for the time being, passed in 1998. Overall British primary energy production maxed out in 1999 at 263m tonnes of oil equivalent and next year production will fall to less than half that level.

Energy consumption is now also falling, but nowhere near fast enough. The recent period of energy surplus hit its maximum in 1999 and by mid-2004 Britain had entered its second spell of deficit (the first ran from the second world war until 1979).

The British government's budget tactic of reducing consumption taxes, while increasing production taxes on energy, is simply perverse. It will increase the energy deficit, and aggravate the painful years of adjustment that Britain must face.

Hervey Gibson
Chairman
Cogent Strategies
Dumfries

The land of Oz

SIR - I read your special report on Australia (May 28th). As a recent migrant to Australia I am astonished by the conservatism of the culture, quite a surprise to a Cambridge-educated Englishman who is rather fond of his historical idiosyncrasies. This conservatism contributes to Australia's environmentalism, but more worryingly it has also created a planning system that is a drag on growth.

To give an example, an identical treetop adventure product (a Go Ape ropes course) takes five times longer to be approved in Australia than in Britain and costs up to 12 times more. There is plenty of red tape here, but I have certainly not noticed a lack of land that justifies such restrictions on development.

My best theory for this derives from Australia's colonisation, which was a government-sponsored adventure in which all activity was regulated by the governor and bureaucrats, creating a permission-based society. The yellow earth is indeed here, it is just hidden under all that red tape, which is rather appropriate for the red continent.

Michael Ledzion
Managing director
Adventure Forest
Sydney

* SIR - Regarding the relatively precocious development of democracy in Australia, you made the mistaken assertion that the secret ballot was introduced in the United States in 1872. In fact, it was William Gladstone's Ballot Act of that year, that introduced the secret ballot to Britain. It was not until 1892 that voters in all states of the American union were able to cast their "Australian ballot" for president.

Voters in Massachusetts were the first in the United States to be enfranchised in this way in 1888, but Kansan voters were not given this opportunity to exercise discretion until three years later. Australia ought to be congratulated for introducing the secret ballot in the 1850s, inspired by the British Chartist movement in which many had been involved before their transportation, but it came after its introduction in France, the Netherlands and Colombia.

Douglas Oliver
London

* SIR - You hope that Australia can become an "Antipodean California" ("The next Golden State", May 28th). Thanks, but no thanks. Australia is a largely infertile and semi-desert country. California's problems we can do without. Rather than train our own people we import immigrants, at the highest rate per head of any big nation. Each new person in Australia requires A$200,000 to A$400,000 worth of infrastructure spending, which comes mostly from the public purse. This infrastructure spending is pushing up taxes and the cost of living.

May I also ask about your odd claim that we politicians should be "pointing to the great benefits of immigration" as "population growth is responsible for about two-fifths of the increase in real GDP in the past 40 years". Are you aware that Australia's population has grown by more than two-fifths in the past 40 years? So it would it be more accurate to say that population growth has had a clear negative effect on GDP per head.

Kelvin Thomson, MP
Federal member for Wills, Australia

SIR - It is true that immigration is good for the economy, but you made the lazy claim that opposition to it is racist. The quality of life is inversely related to population density, and Australia has indeed been the luckiest of countries in this regard. We are allowing our leaders to get away with destroying this priceless and rare quantity in order to make a few extra dollars.

Mark Bresman
Brisbane

Food safety in California

SIR - You highlighted the case of a local yogurt-maker's struggles in California to make a point about "red tape", but you did not show much of an understanding of government's responsibility for food safety ("Beware of the yogurt", May 21st). My department met more than two months ago with the yogurt-maker you mentioned and has sought to continue the dialogue. We are also looking at potential legislative solutions. If there is a way to bring the producers of White Moustache yogurt into compliance, the department will try to make it happen.

We are committed to supporting innovation among the growing number of artisan food producers. But illegally produced foods, regardless of the craftsmanship they may embody, present a significant risk of food-borne illnesses, a risk that would be much greater without safeguards.

Food producers and consumers alike rely on government to give the safety stamp of approval. The deaths of several dozen people in the Los Angeles area in 1985 because of unpasteurised milk used by a cheese manufacturer is a grim reminder why.

Karen Ross
Secretary of California Department of Food and Agriculture
Sacramento

SIR - Back in the 1970s there was a little food store in Minneapolis run by hippies who faced the same problem of not being able legally to sell their yogurt for human consumption. They got around this by rebranding their product as cat food, and advertised it thus: "Perhaps your cat will enjoy its yogurt with fresh fruit or a favourite cereal."

David Lightner
Edmonton, Canada

Japan's recovery

Who needs leaders?

The aftermath of the March 11th disasters shows that Japan's strengths lie outside Tokyo, in its regions

THE earthquake, tsunami and nuclear accident that struck Japan three months ago have revealed something important about the country: a seam of strength and composure in the bedrock of society that has surprised even the Japanese themselves. Not only has this resilience helped the hundreds of thousands suffering from the loss of families, homes and livelihoods to cope with their suffering, despite the self-absorbed dithering of their national politicians in Tokyo. By reminding Japan of the hidden depths of its local communities, especially compared with the shallowness of central government, it has also provided a sense of how Japan could emerge stronger from the crisis, ending years of economic drift.

One of the most heroic examples of community spirit was 24-year-old Miki Endo, who used the loudspeaker system in Minamisanriku, a fishing port close to the focus of the 9.0 earthquake, to urge residents to do what they could to escape the incoming tsunami. She drowned at her post. Television footage shows the rising sea approaching, with her haunting voice echoing over the waves. More than 1,000 of the town's 18,000 residents died.

Quieter examples of selflessness also abound. One fisherman tells of the four days he spent clearing the wreckage of his village, with no knowledge of the whereabouts of his eldest son. When his son eventually appeared, walking down off the mountain after a long cross-country trek to reach his parents, the two wiped tears from their eyes but did not say a word to each other. The son did not wish to disturb his father's toil.

The quality and commitment of local leaders have been a revelation, so refreshing compared with the bickering politicians in the national Diet (parliament). Talk to mayors in the disaster-stricken areas and you get a sense of Wild Western true grit. Jin Sato, mayor of Minamisanriku, is one. He survived the tsunami by clinging to a fence on the top of a building as water washed over his head for three minutes. Since then he has worked all hours, sleeping in a cot in his office.

Another is Katsunobu Sakurai, mayor of Minamisoma, who in the heat of the crisis went on NHK, the national broadcaster, to berate the country's authorities for failing to come to the aid of his town, which faced rising radiation levels from the nearby Fukushima Dai-ichi nuclear-power plant. After he posted an SOS video on YouTube, *Time* magazine made him one of its 100 most influential people of 2011. He has galvanised other mayors into speaking out more forcefully.

The more they do, the clearer it becomes that their communities are not just disaster-stricken; they are on the front-line of all of Japan's most pressing problems, be they economic decline, ageing, debt, or depopulation. National leaders in Tokyo avoid tackling Japan's huge fiscal problems, but municipal authorities have first-hand experience of the effects of shrinking budgets. Though some have recklessly inflated those problems through mismanagement, many others have become masters in the art of thrift.

In the past decade local governments have merged towns, reduced the number of schools and run welfare services on a shoestring. In the process the average size of municipalities in Japan has almost doubled from 36,000 people to 69,000.

Yet the small amount of revenue they raise compared with what they spend (local taxes provide about 40% of their income) means that they remain reliant on the central government which, deep in debt itself, has to spend about 60% of its money on local government. On top of this precarious situation, authorities in the disaster areas now face the vast challenge of rebuilding after a tragedy that left 24,000 people dead or unaccounted for, and 100,000 at least temporarily homeless. Even in the face of this horror, the sense of local pulling-together persists.

There are plenty who dwell on the downsides of this community spirit. Some executives (especially foreign ones) dismiss its effect on business as thinly disguised socialism; it puts the preservation of jobs above profit, and prevents companies going bust that would otherwise make room for new competitors. It can stifle innovation, because it discourages people from speaking out. And it sometimes edges towards xenophobia-though the only sign of this has been a few mutterings about "foreign looters" in disaster areas.

Above all, it remains deeply hierarchical; even in small groups people refrain from challenging their elders and superiors. Occasionally that deference is deserved: the elderly may play a valuable role in their communities. One statistic shows that 65% of those who drowned were over 60; anecdotally, it appears that a lot died with infant grandchildren in their arms. They were looking after them while the generation in between worked. That has shocked Tokyoites, who thought the extended family was long gone.

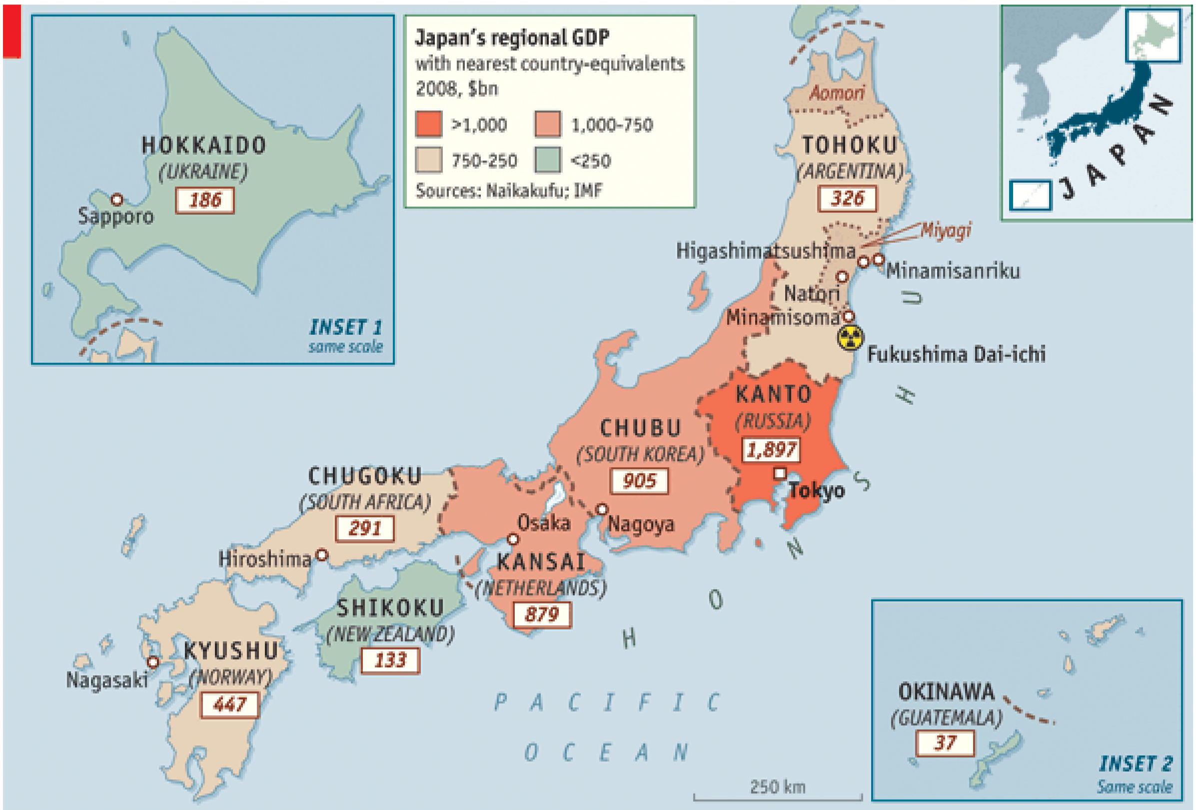
Hard-headed northerners

Over the past three months this strength in adversity in one of the country's most under-reported regions has made people rethink their old conceptions about Japan's geography. Tohoku, the region of northern Honshu where the disaster struck, is an unusual place and part of its resilience may be culturally specific. Its tight-knit, independent streak dates back centuries. More than 1,100 years ago, the last time a tsunami of such scale lashed its shores, its tribesmen were known by

southerners as Emishi (insubordinate northerners). At that time, they had only recently been vanquished by the Yamato, which remains the dominant ethnic group.

But if Tohoku could prove so strong, perhaps other parts of the hinterland are equally so. The crisis revealed Japan's blind spot about what goes on beyond the centre of power. For instance, Eisuke Sakakibara, a former finance mandarin once known as "Mr Yen" for his influence on currency markets, expressed astonishment at the number of parts suppliers in the disaster zone which could disrupt global supply chains. Some of those little-known firms, such as Renesas Electronics, whose tiny microcontrollers are vital for the car industry, are recovering fast-which will help the wheels of the global economy spin a bit more quickly. Yet among the Tokyo-centric elite, few knew how important these scattered firms were.

Because of such pockets of dynamism, the economic potential of Japan's regions, from Hokkaido in the north to Kyushu in the south, is much larger than is often assumed. Areas that are viewed as ageing backwaters on fiscal life-support could justifiably claim to be economic entities in their own right-if they had more freedom to set their own policies and balance their books. Tohoku, for example, has a GDP the size of Argentina's; Kyushu's economy is the same as Norway's (see map).



Yet until now they have remained peripheral to Tokyo, the engine room of the economy, and their fragile finances reflect that. A series of decentralising reforms since 1995 have failed to provide fiscal autonomy, nor has local government attracted a depth of talent to match its new responsibilities. There was a step forward last month when municipalities were given the chance to talk directly to the central government, without going through the usual prefectural channels. But the clamour is for more independence. Osaka and Nagoya, Japan's second and third industrial hubs, are especially tired of playing second-fiddle to greater Tokyo; local leaders in both cities are trying to create bigger economic enclaves and new political parties.

The gap between capital and countryside-especially as seen from Tohoku-has grown starker in recent weeks, thanks to the antics within the government and the Diet. From the early days of the crisis it was not lost on many evacuees that few politicians had bothered to make the two-to-four hour journey by train from Tokyo to witness their plight first-hand. (By contrast, the 77-year-old Emperor Akihito and his wife Michiko have made frequent visits, bowing deeply before the victims.)

In Fukushima people have been infuriated by the apparently arbitrary way the government has set limits on the levels of radiation, which affect whether people are allowed to stay in their villages or not. Across the country there is

dissatisfaction at the apparently arbitrary way the government has declared some foods safe from radiation, and others unsafe. And in the tsunami zone mayors say they badly need guidance, not just on how to rebuild their shattered towns, but also on how much money they will have to spend.

To many there was no starker demonstration of the out-of-touch arrogance of national politicians than on June 2nd when opponents of Naoto Kan, the prime minister, sought and failed to force him out of office, by way of a no-confidence motion in the lower house. In the disaster area mayors spoke out angrily at the way political gamesmanship was distracting from recovery efforts. "When someone is drowning, what's important is not who rescues them, but how they are rescued," complained Hideo Abe, mayor of Higashimatsushima, a damaged port.

Matters worsened when Mr Kan won a reprieve by promising to stand down, and then appeared hours later to backtrack on the timing. Three months after March 11th, his government has still not submitted a Â¥10 trillion ($125 billion) emergency reconstruction budget, nor secured approval for funding mechanisms to pay for the annual budget. The opposition, which controls the upper house, is demanding that he goes as a condition for passing the finance requests, possibly as a prelude to forming a "grand coalition" with the ruling party.

Leaders who don't lead

Amid such chaotic politics, some despair of their national leaders. "The brain is dead, but at least the rest of the body is functioning," quips Yoichi Takamoto, a Kyushu-based entrepreneur and head of TMSUK, a robot manufacturer. But that does not necessarily mean that he or others despair for the country.

Seiichiro Yonekura, professor of innovation at Hitotsubashi University, notes that Japan has rarely had outstanding leaders during its modern history. Even in the post-war era only a few politicians had any charisma. Yet the country rebuilt Tokyo from the ashes of the second world war, and Hiroshima and Nagasaki from atomic destruction. Japan became the world's second largest economy. If something of a similar magnitude is to be achieved again, good ideas are crucial. Then, like "ants in an anthill", he predicts, Japanese society will get to work.

This sounds idealistic, but it would not be the first time a natural disaster has done more than shake the ground under Japan's feet. An earthquake that levelled Tokyo (then called Edo) in 1855 loosely coincided with the beginning of the end of more than two centuries of feudal isolation; the Meiji imperial family was restored to power in 1868. Another in 1891 forced Japan to re-examine its Meiji-era love of all things Western; many of the European-style brick buildings it had used to replace its traditional wooden ones fell down. In 1923 the Great Kanto Earthquake helped set in motion a political crisis that ultimately led to militarism and the second world war.

Planning and money

Since the March disaster two overarching challenges have emerged that could, if tackled, have similarly far-reaching consequences (though without, one hopes, the belligerence). First, Japan has to come up with plans and finance for rebuilding the tsunami-wrecked towns so that they will not only suit the mostly elderly people who used to live there but will also be revitalised to attract the young.

Second, it needs to use the Fukushima disaster to rethink energy policy and decentralise decision-making in a way that could kick-start economic revival. Both issues profoundly challenge the tenets by which Japan has been ruled in recent decades. But if ever there were a moment for the country to break out of its centralised straitjacket, this is it.

Jun Iio, who heads the working group of the prime minister's Reconstruction Design Council, says that some big bureaucratic hurdles have already been overcome which, he reckons, shows an unprecedented level of flexibility in the relevant ministries. One is planning. For the first time the Land Ministry and the Agricultural Ministry have agreed, as a result of the tsunami, to relax the rigid restrictions on the use of farm and urban land.

Mr Iio says this means that parts of the cities that were swept away by the floods can be reclassified as farmland. The plan is that the people who used to live there will be relocated by the government to apartments on higher ground. It is not yet clear how much they will be paid for their old houses. To help things along, the powerful Justice Ministry has agreed to be flexible on property rights.

But mayors such as Isoo Sasaki of Natori, a town whose port was washed away by the tsunami (he also lost his 140-year-old sake business), insist they should be able to tailor their rebuilding efforts to individual communities' needs, rather than relying on a one-size-fits-all policy. He admits that during Japan's bubble era in the 1980s, there were embarrassing local building initiatives that saddled towns with both debts and eyesores. But he believes municipalities have learned from their mistakes; indeed, a few pioneering planners have made great strides recently reviving their towns with old feudal-era ideas that encourage compact and sustainable living arrangements.

Then there is the question of money: the affected areas cannot possibly afford to rebuild themselves. And people are fearful that when the money is finally approved in parliament, it will come with strings tightly attached.

Yoshihiro Murai, governor of Miyagi, the most prosperous prefecture hit by the crisis, points out that this is a perennial problem. He says he has raised taxes twice, cut his staff and shed popular services to save money, yet the discretionary spending power of his office is still only 5-6% of the total budget. He believes one way to raise money would be to increase consumption tax, which people have said they would be prepared to tolerate in order to pay for the emergency. But the government, as yet, is only studying the issue. Perhaps one difference is that Mr Murai, who used to be a helicopter pilot in Miyagi and knows every inch of its coastline, appreciates much better than his central-government counterparts how badly the money is needed.

Nuclear or not

Responding to the nuclear disaster is even harder. Mr Kan had initially sought to stay in power until the Fukushima nuclear plant has stabilised its reactors and reached a state of "cold shutdown". But the timetable for that may already have slipped into 2012, which is too distant for those trying to oust him.

Not only is Fukushima Dai-ichi's owner, Tokyo Electric Power (TEPCO), struggling to keep the plant under control. It is also stretched by the demands for compensation from people whose livelihoods, at least for the time being, have been ruined by the disaster. The government has patched together a compensation scheme, but experts believe this may have been a sop to let the company's book-keepers approve the end-of-year accounts. As fears of bankruptcy mount, TEPCO's shares hit a new low on June 6th.

Tatsuo Hatta, an economist at Gakushuin University in Tokyo, believes TEPCO may have to sell off its power plants to international operators to remain solvent. That could set in motion what he and a few outspoken commentators consider a long overdue overhaul of the energy market in Japan, which could have an immense impact on national politics. He says that executives at TEPCO and the other oligopolistic electricity utilities have stifled argument about Japan's nuclear-energy programme, both by pouring money into politics and by muffling the media through their huge advertising budgets.

Yet those anxious for change note approvingly that even on energy policy, power has now shifted slightly towards local and regional governments. Prefectural governors, including those who originally supported nuclear power, are having second thoughts. In some areas local authorities are expressing strong opposition to the restarting of nuclear reactors closed for maintenance; consequently, all but 19 of the nation's 54 reactors are out of action.

Others, however, are weighing up costs and benefits, as they should. On June 5th a governor was re-elected in Aomori prefecture, on the northern tip of Honshu, who said he would keep its two nuclear-power plants provided an experts' committee was set up that vouched for their safety. The prefecture is one of Japan's poorest, which may be why it is prepared to strike a deal with the nuclear industry.

In a decentralised system different areas could take a different view of what forms of energy are best for them. Hokkaido, for example, could benefit from its proximity to Russia's natural gas deposits off the eastern coast of Siberia. Okinawa in the south could benefit from solar power, because it has lots of sunshine. Wind could power the country's mountainous areas. Places like Tokyo, with their vast needs, could use a variety of sources.

As for Tohoku, some believe that it should set the tone for a national energy policy that is increasingly self-reliant and efficient. Thus, its towns could be rebuilt to minimise electricity use and car traffic. The huge swathes of land destroyed by the tsunami or depopulated because of radiation could become wind, wave or solar farms. As for Fukushima itself, some wits say it could become a new home for the central government. Then again, perhaps it has already suffered enough.

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The Republican nomination

It's showtime

The Republicans are, at last, seriously getting on with choosing a candidate to take on Barack Obama next year

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IT HAS been said so often that it has come to look self-evident. But is the Republican field in the race for next year's presidential election really so weak? Democrats said much the same about their own candidates in 1991, only to see Bill Clinton capture the White House.

True, Americans take a dim view of the field so far, if recent surveys by the Pew Research Centre and the *Washington Post* are to believed. Only 25% had a good impression of the likely candidates. Many stars have decided to sit this race out. But this week brought a surprise. Less than a week after announcing that he was running again, **Mitt Romney**, who came second to John McCain in 2008, found himself head-to-head, at 47% each, against Barack Obama in a *Washington Post*/ABC poll. Maybe the president is not unassailable after all.

That said, Mr Romney is the clear front-runner (see Lexington). The others have a lot of ground to make up before they can match his combination of name recognition and financial resources.

Consider **Tim Pawlenty**, the former governor of Minnesota. An evangelical Christian who balanced his state's budget has obvious appeal both to the party's social conservatives and its fiscal hawks. And yet his mild public manner makes his policies seem less threatening than those of other conservatives to voters in the middle. In theory, this is the ideal place to start. The trick for any candidate is going to be winning the nomination of a party that the tea-party movement has driven sharply to the right without alienating too many of the voters in the centre on whom final victory will depend.

As a wolf in sheep's clothing, Mr Pawlenty has become a favourite among political insiders. But according to the Pew survey, less than half (48%) of America has ever heard of him. After announcing his candidacy from Iowa at the end of May, Mr Pawlenty has now embarked on the long slog of making his name more widely known. At a speech this week at the University of Chicago he set out his economic stall firmly on the right, promising to slash the size of government and boost growth by simplifying income taxes, cutting corporate taxes and eliminating taxes on capital gains, dividends and inheritance. Critics dismissed his plans as fantasy.

One other former governor, **Gary Johnson** of New Mexico, has joined the race and a second, **Jon Huntsman** of Utah, is on the point of formally doing so. Mr Johnson is a rank outsider, but Mr Huntsman is exciting interest as a more charismatic version of the front-runner.

Like Mr Romney, he has good looks and a successful record in business. He was popular for presiding over Utah's biggest-ever tax cut. But like Mr Romney he is a Mormon, still a handicap in presidential races. And he too carries some baggage that will alienate the Republican base.

Mr Romney's problem is that he pioneered in Massachusetts a version of the hated Obamacare the Republicans vow to repeal. Mr Huntsman's is that he accepted Mr Obama's offer of being ambassador to China and said nice things about his boss. More troubling to the Republican base are the support he expressed for the president's economic stimulus package in 2009, his moderate position on civil unions for gay couples and his participation, when governor, in a regional cap-and-trade scheme. Nate Silver, a polling analyst for the *New York Times*, argues that none of the other contenders had adopted so many moderate positions, and that this put the former ambassador's chances of winning the nomination "near zero".

Messrs Romney, Pawlenty and Huntsman are seen as candidates who, if they could win the nomination, stand a fair chance of doing well against Mr Obama. Others might be called the insurgents-those with less appeal to the mainstream voter but eager followers in the base. The best-known of these is **Sarah Palin**. Whereas only 32% of Americans have heard of Mr Huntsman, says Pew, the former governor of Alaska is now familiar to a whopping 97% of Americans.

Since being chosen as Mr McCain's running-mate in 2008, Mrs Palin has courted publicity tirelessly, most recently with the "One Nation" bus tour she launched in Washington, DC, on Memorial Day. Not all the publicity has been favourable, however. For example, she was widely mocked after giving a mangled account in Boston of Paul Revere's famous ride and refusing to admit her mistake.

"Reveregate" exemplifies Mrs Palin's problem as a candidate. Nobody knows whether she seriously intends to join the race or, if she does, how seriously to take her. Although she has fiercely loyal fans (some of whom apparently tampered with Wikipedia to support her revisionist version of Revere's ride), she inspires fierce dislike as well. The *Washington*

Post/ABC poll found two out of three Americans (including 42% of Republican voters) saying they would definitely not vote for her-and more than six out of ten said she was not qualified to be president.

If she does run, she will hurt **Michele Bachmann**, a congresswoman from Minnesota who is also a darling of the tea-party movement but one who has been less coy about her plan to join the race. Sometimes dismissed as Palin Lite, Mrs Bachmann is in fact a former tax lawyer, devout evangelical and a serious-minded politician capable of flashes of stirring oratory. In public she insists that Mrs Palin is a friend and kindred spirit, but Ed Rollins, her newly hired campaign consultant, grumbled this week that "Sarah has not been serious over the last couple of years."

Another candidate with excellent name-recognition (71%) is **Ron Paul**. The elderly libertarian now making his third run for the White House (on one attempt he represented the Libertarian Party) argues that the nation is at last latching on to his small-government philosophy. Students in particular admire his professorial radicalism. But most voters are dubious about returning to the gold standard and dismantling America's overseas bases. With no real prospect of victory, he may soon have to pass the torch to his son, Rand, now sitting in the Senate for Kentucky.

Newt Gingrich entered the race with brighter prospects. He has money, and a name as the author of the 1994 "revolution" that captured the House of Representatives for the Republicans for the first time in 40 years. Better still, the Republican majority in the House is once again on the former speaker's small-government wavelength-or was, until he called its plan for a radical overhaul of Medicare "right-wing social engineering". A grovelling apology may not have rescued his campaign from this disastrous start. Nor does a history of extramarital affairs, one conducted while he was trying to impeach Mr Clinton over the Monica Lewinsky affair, endear him to the average voter. Nearly two out of three who told Pew they had heard of Mr Gingrich said there was no chance they would vote for him. Though still in the fray, he has just taken time out for a cruise of the Greek islands with Callista, his (third) wife.

Herman Cain is Mr Gingrich's opposite: the self-made pizza mogul and talk-show host started as an unknown and has soared in the polls by preaching "common-sense business solutions". Tea-partiers lap up his speeches, and by general consent he "won" the first televised debate in South Carolina last month, though most of the big names were not there. Another good performer, who joined the race this week, was **Rick Santorum**, the former senator from Pennsylvania who failed to win re-election in 2006, in part because of his extreme social conservatism.

The field may grow again. Popular governors such as Mitch Daniels of Indiana, Haley Barbour of Mississippi, Chris Christie of New Jersey and Rick Perry of Texas chose not to run when Mr Obama looked unbeatable. If that changes, so might the calculations of some of them-and of other Republican heavyweights such as New York's former mayor, **Rudy Giuliani**. The race has only started.

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The Fed, the budget and the economy

Policy fatigue

Policymakers seem helpless in the face of bad economic news

WHEN America's economic recovery stalled last summer, Washington swung into action. The Federal Reserve announced it would buy $600 billion of government bonds with newly printed money, pushing down long-term interest rates. Then, at the end of the year, Barack Obama struck an agreement with the Republicans to cut payroll taxes and extend unemployment benefits.

Economic history seems to be repeating itself, in part. A promising recovery is again sputtering as job growth, which averaged 220,000 from February through April, slumped to 54,000 in May. The unemployment rate rose to 9.1%, the second monthly increase in a row (see chart). The economy grew at just a 1.8% annual rate in the first quarter and probably only a little faster in the second. Though not a double dip that barely qualifies as a recovery.

The response from Washington, however, is quite different from last year. In a speech on June 7th Ben Bernanke, the chairman of the Fed, acknowledged growth had been "uneven...and frustratingly slow." But as the Fed's second round of "quantitative easing" (QE) draws to an end this month, he gave no hint a third round was in the offing.

To be sure, Mr Bernanke thinks the economy will pick up of its own accord as it shakes off the temporary restraints of Japanese supply chain disruptions and higher petrol prices. But if the malaise continues, the Fed, uncharacteristically, seems to have little confidence it can help. "Monetary policy cannot be a panacea," Mr Bernanke said.

This has less to do with the results of QE2, which were positive: interest rates initially fell, as did the dollar, and stocks rose. What bothers the Fed is the price it paid: political blowback from foreign governments, Republicans on Capitol Hill,

and even from inside the Fed itself. Such attacks can generate an unwarranted fear of inflation that frustrates the goal of QE.

If monetary policy seems indifferent to the economy, then fiscal policy is downright truculent. December's stimulus agreement lasts only for a year: that virtually guarantees budget tightening come next January, similar to the current clampdown in the states caused by the ending of aid from the previous round of stimulus. Even before then, Mr Obama may have agreed to additional spending cuts to win Republican co-operation on raising the statutory limit on the national debt, currently set at $14.3 trillion. On May 31st, the Republicans who control the House of Representatives put an unconditional increase in the ceiling to a vote simply so that they could reject it. Republican negotiators now say they want $2.5 trillion in cuts over the coming decade to raise the debt ceiling by a like amount.

There are no signs of an agreement. Joe Biden, the vice-president, has been negotiating with Republican and Democratic congressional representatives but meetings have been hard to schedule because the House and Senate are in session at different times. It appears that discussion may not get serious until late in July, as the August 2nd deadline approaches.

At that point the Treasury warns that it will have to stop paying something, though it won't specify what: interest on the debt, or other payments such as to government suppliers or pensioners. The first would clearly be a default in the eyes of America's creditors. On June 8th Fitch, a rating agency, said such a default would trigger a downgrade of America's credit rating from AAA to junk. The previous week Moody's Investors Service warned that if August 2nd approached with no progress, it could put America's rating on review for possible downgrade.

Republicans have generally pooh-poohed the risks of default. A handful of them say they would actually prefer it to unchecked spending. Many also claim that the federal government could avoid default by prioritising the way it pays its bills: interest on the debt first, other things later.

Such talk frightens the administration. Mary Miller, who manages the national debt for the Treasury Department, says picking and choosing among which of the government's bills to pay would be an "operational nightmare". More important, she says it could send such a negative signal about America's financial governance that it could make the markets inhospitable to American debt. In August the Treasury must not only raise well over $100 billion to finance the deficit, but refinance more than $500 billion in maturing debt.

The impasse over the debt ceiling has yet to affect the bond markets: yields on government debt have actually dropped as the economic outlook has turned gloomier. Moody's, for one, says it "fully expected political wrangling". But, it added, "the degree of entrenchment into conflicting positions has exceeded expectations." In such a situation, as historians know, accidents can happen.

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Austan Goolsbee

And another one gone

A popular economist leaves the president's side

AS THE economic outlook darkens again, one of Barack Obama's longest-serving advisers is bidding the administration farewell. Austan Goolsbee, the chairman of Mr Obama's Council of Economic Advisers (CEA), will step down this autumn. Mr Goolsbee advised the president during his 2004 Senate run and 2008 presidential campaign, before serving as a CEA member during the tumultuous early part of the Obama presidency. He replaced Christina Romer as CEA chairman last September. Mr Goolsbee cited a desire to return to his Chicago home and to avoid losing his tenured professorship at the University of Chicago as the main reason for his departure. Others have speculated that the political logjam on Capitol

Hill and the stubborn refusal of the economy to recover speedily will have been contributory factors. Mr Goolsbee's tenure as chairman has been a thankless one.

He will leave a big hole. One of the administration's better communicators, Mr Goolsbee deployed charm, humour and lucid economic argument in support of the administration's policies. He commanded the respect of left- and right-leaning economists alike. Mr Goolsbee's departure is yet another loss from a once star-studded economic brains trust. In joining eminences like Larry Summers (former head of the National Economic Council), Mrs Romer, and Peter Orszag (former budget director) on the outside, he leaves Tim Geithner, the treasury secretary, as the administration's sole economics heavyweight.

His departure also creates a logistical headache. The White House is facing ever more difficulty in getting nominees through Congress. On June 6th Peter Diamond withdrew his name from consideration for appointment to the Federal Reserve board after his nomination drew opposition from congressional Republicans. A Nobel prize in economics was apparently no help. Mr Obama could dodge an immediate confirmation battle by elevating Katharine Abraham or Carl Shapiro, sitting members of the CEA, to the chairmanship. But the job normally goes to better-known academics, and replacing either of them would involve more congressional trouble.

Confirmation hurdles aside, the job looks a miserable one. Few economists anticipate a smooth economic road ahead. Facing stiff Republican opposition, the administration will have little or no leeway for doing anything significant to boost the economy. And voters are more sceptical than ever of Mr Obama's economic leadership, according to the latest polling. Mr Goolsbee is expected to advise Mr Obama, from Chicago, during the president's re-election campaign next year. As things stand now, that could be his biggest challenge yet.

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The war in Afghanistan

Home run?

The pressure mounts on the president from war-weary voters

WITHIN a few weeks Barack Obama must make a decision that could determine the outcome of the decade-long war in Afghanistan, the one that in his election campaign he described as the "right war" but of which most Americans are now weary. Having authorised sending an additional 30,000 troops to Afghanistan in late 2009, after prolonged agonising, Mr Obama always intended that a limited drawdown would begin after this year's fighting season, with more coming home in good time for his bid to be re-elected in 2012. Left unsaid was the pace at which America would begin to reduce its force of 100,000 troops. It would, apparently, all depend on conditions on the ground.

That now looks open to question. Those close to the president, such as Joe Biden, the vice-president, and Tom Donilon, the national security adviser-both of whom opposed the 2009 "surge"-have taken up their cudgels again. According to reports, they are not only seeking a much bigger cut in troop numbers this year-up to 8,000-than the armed forces hoped to get away with; Mr Obama's men also want a firm schedule for reversing the rest of the surge, preferably well before election day.

Their case is strengthened by the growing discontent over the war. A recent *Washington Post*-ABC News poll suggests that, after the killing of Osama bin Laden, public backing for the war had risen to 43%. But that is probably just a temporary bounce. The trend since the end of 2009 has been steadily downward, falling last month to 31%. Inevitably, some Americans see bin Laden's death as a good excuse to head for the exit-three out of four want a "substantial reduction" in troops this summer. On May 26th an amendment in the House to speed up the withdrawal and start talks with the Taliban was defeated by only 215 to 204, with 178 Democrats defying the president's policy. Even some Republicans are turning against the war, albeit mainly because it costs some $2 billion a week.

The Pentagon is fighting a spirited rearguard action to limit the damage. General David Petraeus, the commander in Afghanistan, and Robert Gates, the defence secretary, who was in Afghanistan this week, insist that the campaign has turned a corner thanks to the surge. They say that the Taliban are now on the back foot and that a "good enough" outcome is within sight. But they also warn that the progress is not yet irreversible and could be jeopardised by too precipitate a drawdown. In particular, they want the time to complete the recruitment and training of Afghan security forces, which is the key to holding the country together after 2014 when NATO combat troops are due to leave.

Although the surge has fully justified itself, their voices may carry less weight than they did. The respected Mr Gates is retiring at the end of the month and General Petraeus has been drafted by Mr Obama to take on the running of the CIA later this year after its current director, Leon Panetta, succeeds Mr Gates at the Pentagon. Another advocate for the surge, Admiral Mike Mullen, chairman of the joint chiefs of staff, is also leaving office soon.

Mr Obama will carefully weigh the arguments and sift all options. Michael O'Hanlon of the Brookings Institution thinks the president's caution means that he will not want to risk undermining what the surge has achieved. He says: "The best predictor of what the president will do is what he has done in the past."

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Film-industry subsidies

Unilateral disarmament

After a decade of escalation, a stupid trend may have peaked

LOTS of states would love to be California and have their own little Hollywood. Film crews would then come to town and spend money in hair salons and hotels, and local politicians could pose with film stars. So why not call it "economic development" to justify the huge tax credits that lure film producers? As of last year, more than 40 states had such incentives, costing them a record $1.4 billion.

Even California itself plays the game, believing that it has to defend itself against the poachers. In 2003, when only a handful of states (principally Louisiana and New Mexico) offered incentives, California made two-thirds of America's

big-studio films. Now it makes far fewer than half. Film LA, an organisation that co-ordinates permits for film shoots in Los Angeles, says that without California's own tax credit, "2010 would have been the worst year" since the mid-1990s for filming in Hollywood. As its marketing blog gibes: "It is extraordinarily unlikely that the 137 productions that filmed in Michigan since 2007 chose to shoot there for creative reasons, a favourable climate or a deep and talented film-crew base."

All this costs money, which legislators volunteer on behalf of taxpayers. Many tax credits (a percentage of a film crew's local expenditures) exceed the filmmaker's total tax liability to that state. The credits have even become an industry unto themselves: brokers slice them into tranches and trade them. In Iowa filmmakers were selling their credits until that state shut its programme in 2009. Last month an Iowa judge sentenced a producer to ten years in prison for fiddling credits.

Incentives do not have to involve tax credits. Some states simplify the paperwork by just giving out cash (calling it "rebates" or "grants"). Others exempt film-makers from sales or hotel taxes or give them other perks.

All this is silly. First, as Joseph Henchman at the Tax Foundation, a non-partisan think-tank, puts it, even when a state succeeds in luring film crews, they rarely boost the economy or tax revenues enough to justify the costs of the incentives. Film companies usually import their staff (stars, stuntmen, etc) and export them again when the shoot is over. The local jobs they create (hairdressers, sound technicians, pizza deliverers) are mostly temporary.

Second, since virtually all states are at it, the programmes largely cancel out one another; no state gets a lasting advantage. The craze resembles a beggar-thy-neighbour trade war (with mutually destructive tariffs) or the federal tax code with its loopholes for every lobby and thus higher rates for all. In the language of cold-war nukes, it would be mutually assured destruction (MAD). The only winner is the film industry. In essence, a rich bloke in a Brentwood villa gets money from a poor taxpayer in West Virginia.

Fortunately, this has begun sinking in. Arizona, Arkansas, Idaho, Kansas, Maine, New Jersey and Washington have recently ended, suspended or shrunk their programmes. Many others, struggling with budget deficits, are considering doing the same, investing the money in something permanent or even leaving it to taxpayers. "2010 will likely stand as the peak year," thinks Mr Henchman.

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Drug testing in Florida

Their tea-cup runneth over

Rick Scott's zeal for drug testing runs into stiff opposition

RICK SCOTT campaigned on getting Florida back to work, and though the unemployment rate remains in double digits, the state's new governor has at least kept the Florida branch of the American Civil Liberties Union (ACLU) busy. The branch sued him twice in the first three days of June, and may file a third suit in early July. Two of the suits-one filed and the prospective one-concern the constitutionality of blanket drug-testing. On June 1st the ACLU sued to stop the implementation of an executive order signed by Mr Scott that requires all applicants for state jobs to be tested for drugs, and existing state employees to be randomly tested. The prospective suit concerns the law, signed by Mr Scott on May 31st, that requires all adult applicants for cash benefits from Florida's welfare system to be tested.

The welfare bill is neither as objectionable as its critics depict it nor as uncontroversial as its supporters would have it. Maria Kayanan, of the ACLU in Florida, calls it "patriarchal, racist and mean-spirited", but Mr Scott's contention that taxpayers should not have to subsidise drug use seems fair enough. The bill affects only cash benefits, not food stamps. And though it requires welfare recipients, of which there are roughly 113,000 in the state, to pay for the test, it raises their initial welfare payment to cover the cost of the test-so long as they pass it, that is.

People who fail the test become ineligible for welfare for a year, though this is dropped to six months if they prove that they have successfully completed drug treatment (which they must pay for). A second failed test makes them ineligible for welfare for three years. How Florida's poorest will pay for treatment is anyone's guess. Lane Wright, a spokesman for Mr Scott, touts "saving tax dollars" as a benefit of the bill: this suggests a strong suspicion that it will knock a lot of people off the benefit rolls.

Then there is the constitutional issue. In 2000 a United States District Court held that a Michigan law requiring "suspicionless drug testing" of all welfare recipients fell afoul of the fourth amendment's protection against unreasonable searches and seizures. Mr Scott's other initiative also has fourth amendment problems. In 1997 the United States Supreme Court found a Georgia statute requiring candidates for public office to be drug tested failed to show a need pressing enough to "suppress the fourth amendment's normal requirement of individualised suspicion." And in 2000 a Florida district court found that reassuring the public that state workers are not using drugs-which is Mr Scott's rationale for testing employees-was similarly insufficient to justify blanket searches.

The Supreme Court has recognised that for certain "high-risk" jobs-customs officials who search for drugs and carry guns, railroad employees involved in accidents or found to have violated safety rules-drug testing without suspicion is

permissible. In fact Florida's Drug-Free Workplaces Act already allows applicants for such positions to be tested. But that, apparently, is not enough for Mr Scott: he wants to test state workers at least quarterly. Mr Scott ran as a tea-party favourite. If he really wants less government he has a funny way of showing it.

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Sexting and politics

The Weiner war

A sex scandal without any actual sex

NEW YORK's state legislature has recently been considering a bill for an education programme to teach teenagers about the dangers of "sexting"-the sending of raunchy text-messages, tweets and the like. Anthony Weiner, a Democrat who represents parts of New York's Brooklyn and Queens in Congress, could have benefited from such a class. On June 6th, after ten days of adamant denials, he tearfully admitted to having sent a young woman a photograph of his bulging underpants. Furthermore he said he had been engaging in online naughtiness with six women for some three years, after his marriage to a close aide of Hillary Clinton as well as before.

On May 27th Mr Weiner accidentally broadcast the now infamous photo on his Twitter account. He immediately claimed his Twitter feed had been hacked. Later, backtracking a bit, he said he could not say with "certitude" that the underwear shot was not of him, to general hilarity. Eventually, though, he revealed all.

Mr Weiner says he never met any of the women in person. Even so, explicit transcripts of exchanges between Mr Weiner and his virtual amores, one of them reportedly a porn star, are hard to live down. The public servant graphically described his private parts. BigGovernment.com, a conservative website, revealed he sent other compromising photographs, including a bare-chested pose, not unlike one Chris Lee took of himself. Mr Lee, another New York representative but a Republican, stepped down in February after trying to arrange sex on Craigslist. Mr Weiner is trying to hang on, but he has little backing from his party bosses. Harry Reid, the Senate majority leader, refused to defend him. Nancy Pelosi, the House minority leader, called for an ethics investigation.

Even before the scandal, Mr Weiner's name encouraged puns, but the swordplay has been taken to new lows. The internet has crackled with jokes about Weiner's pickle and congressional staff. Still, 51% of voters want him to stay put, and only 30% want him out. To add to his woes, Mr Weiner's district might disappear, thanks to congressional redistributing. Even if he survives all that, the mayoral run that was once expected for 2013 now looks highly unlikely. A happy ending is not on the cards.

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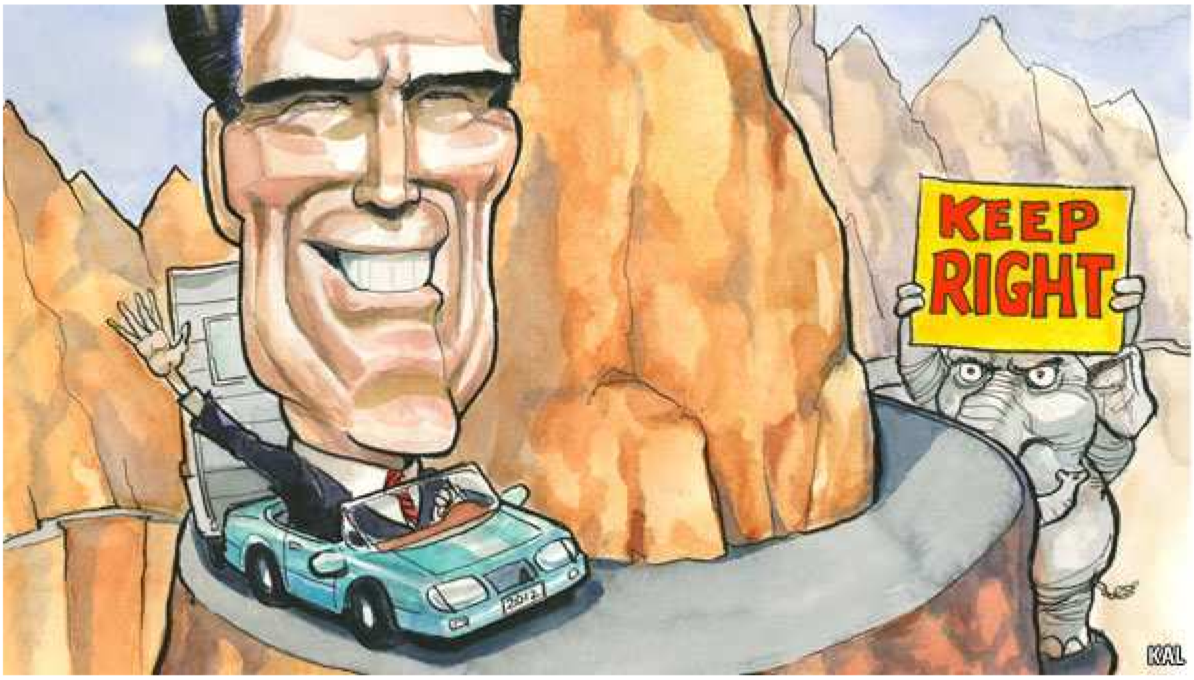
Lexington

Mitt, take two

This time, will Romney be Romney? If he were, he would stand a chance



"NO APOLOGY" is the title of the book Mitt Romney published last year. But many voters think the former businessman now making his second bid to become president has plenty to apologise for. In 2006, as governor of Massachusetts, he passed a law that overhauled health care in the state. It was a source of immense pride at the time. As a recent profile in the *New Yorker* recalls, the signing ceremony in Boston was pomp on stilts. A pipe and drum band led the governor into Faneuil Hall, where he signed Romneycare into law with 14 different pens. His supporters hoped the landmark reform would in due time propel the governor into the White House.

They were wrong. In 2008 Mr Romney failed to win the Republican nomination even after spending $45m of the personal fortune he made in venture capital. And this time round Romneycare has morphed from his pride and joy into one of his two big handicaps as a candidate. This is not because the reform has failed-more than six out of ten people in Massachusetts say they like it-but because of his party's thought police. Once Romneycare became the inspiration for Barack Obama's Affordable Care Act, the ideologues decreed that the "individual mandate" at the heart of both laws (ie, a personal obligation to buy health insurance) was an unconstitutional, unAmerican abomination that the Supreme Court should strike down. A recent satirical headline in the *Onion* summed it up thus: "Mitt Romney Haunted By Past Of Trying To Help Uninsured Sick People".

If Mr Romney is embarrassed, he dare not say so. Renouncing his signature achievement as governor would be fatal to a candidate whose 2008 campaign was shipwrecked by flip-flops on abortion, gay rights, gun control and immigration. So he argues now that whereas individual states have a perfect right to impose an individual mandate if they so choose, the federal government has no business thrusting such a policy down the states' throats. In his windswept announcement speech from Bittersweet Farm in New Hampshire last week, Mr Romney made a pointed reference to the tenth amendment (states' rights), promised to repeal Obamacare and called his own health reform in Massachusetts "a state solution for a state problem".

Will this defence work? When Mr Romney was a governor it was not yet heretical for a conservative to propose compelling citizens to buy insurance. Plenty of people in right-wing think-tanks saw this as a market-based way to make the free-riding uninsured share the costs they imposed on others when they pitched up sick in hospital. But the rise of tea-party libertarianism has changed the debate. How dare any government force any individual to buy a product he does not want? To the purists who want a straight answer, Mr Romney's retreat behind states' rights will look like the evasion it is. If the question becomes a test of whether he is a true conservative, many true conservatives will be confirmed in their suspicion that he is not.

Mr Romney's second big handicap as a candidate is that he is a Mormon. That tends to cancel out the appeal this upstanding family man and former bishop would otherwise have to the party's social conservatives. Many Americans see Mormonism as a cult: in polls over the years a steady one in four say they would be less likely to vote for a Mormon as president. This makes it especially hard for Mr Romney to win over the evangelical Christians who make up about half of the voters in Republican primaries, and an even bigger share in early-voting Iowa and South Carolina. He has a practised answer to those who ask about his faith-"We're not electing a pastor-in-chief, we're electing a commander-in-chief"-but, like Romneycare, this remains a vulnerability the candidate can do nothing to remove.

Many pundits say that these two problems are enough to sink his chances. That is too deterministic by half. People who say that a Mormon cannot become president used to say that a black man could not become president. True, his rivals can be relied on to try to hang the individual mandate around Mr Romney's neck. But if America's recovery continues to falter, the dominant issue in next year's election is going to be the economy, making it easier for Mr Romney to change the subject from Romneycare and religion to a subject where he has a stronger story to tell. If the economy is still prostrated in November 2012, a candidate who resembles a competent CEO with a credible plan to bring back prosperity could certainly give Mr Obama a run for his money.

The candidate from central casting

Mr Romney was born to be that candidate. His chiselled good looks could have been made for Mount Rushmore. He has a solid record not just as a businessman and successful governor but also as the rescuer of the 2002 Winter Olympics in Salt Lake City. Apart from having a personal fortune he is a formidable money-raiser: on a single day in May he raked in more than $10m of contributions via a phone-bank appeal. And although he remains a stilted speaker who struggles to fire an audience's emotions, most voters take him seriously. A *Washington Post*/ABC poll this week had him level-pegging with Mr Obama, at 47% each, with Mr Romney doing rather better among independents.

What about the complaint that he has no fixed convictions? This time he is on his guard. He is sticking to some unpopular positions, such as his belief in global warming and the need to curb greenhouse gases. He appears to have learnt that it is a mistake to pretend too hard to be the diehard social conservative he isn't. Who knows? Americans might welcome a technocrat after the ideological partisanship of recent years. But first the Republicans must find it in their hearts to forgive him the transgression of Romneycare and let him run against Mr Obama as himself. That is the harder part of the task Mr Romney has taken on.

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Peru's presidential run-off

Victory for the Andean chameleon

Having reinvented himself as a moderate, Ollanta Humala has an extraordinary opportunity to marry economic growth with social progress

FIVE years ago Ollanta Humala, a former army lieutenant-colonel with no previous political experience, came close to winning Peru's presidency by avowing the statist nationalism practised by Venezuela's Hugo Chavez. On June 5th he achieved his goal, narrowly defeating Keiko Fujimori, the daughter of a populist former president, by 51.5% to 48.5%. To do so Mr Humala eschewed Mr Chavez, modelled himself on Brazil's social-democratic former president, Luiz Inacio Lula da Silva, dropped a leftist government platform he had unveiled only months before and forged last-minute alliances in the centre. Many Peruvians are consequently wondering just which Mr Humala will start governing their country on July 28th.

The uncertainty prompted the Lima stockmarket index to plunge 12.5% on June 6th, its biggest-ever daily fall, though it later recovered most of its losses. Shares in several multinational mining companies with operations in Peru fell sharply too. In victory Mr Humala has tried to strike a reassuring tone while also offering hope to poorer Peruvians who make up his electoral base. "It's not possible to say that the country is progressing when 12m people are living in miserable conditions without electricity or running water," he told cheering supporters. But he also promised "a government of national consensus" that would "promote investment and the free market, which is the consolidation of the internal market".

Mr Humala's transition team, announced this week, mixes leftist academics with centrist former officials from the government of Alejandro Toledo (2001 to 2006), a defeated rival who backed him in the run-off. Pundits called for Mr Humala to put an end to the uncertainty by naming key cabinet appointments quickly. These might include Beatriz Merino, a capable centrist, as prime minister. And Mr Humala is said to want Julio Velarde, who is respected by investors, to stay as Central Bank governor.

Mr Humala's journey to the centre began when he adopted many of Lula's campaign tactics and brought in political advisers from Brazil's ruling Workers' Party. But in the campaign for the first round of the election, on April 10th, he was still proposing a "nationalist" economic policy and pledged to unpick contracts that have brought private investment in mining, gas and infrastructure. Mr Humala topped that poll, but with just 31.7% of the vote. His votes were mainly those of the Peruvians, especially in the southern Andes, who have yet to feel much benefit from an extraordinary economic boom that has seen growth average 5.7% a year over the past decade and poverty fall from 48% in 2005 to 31% in 2010.

Mr Humala's immense good fortune was that the centrist vote was split between three candidates, and so his opponent in the run-off was Ms Fuijimori. As president from 1990 to 2000, her father, Alberto Fujimori, laid the foundations of the economic boom with free-market reforms but ruled as an elected autocrat. He is serving a 25-year sentence for human-rights abuses and corruption. Many Peruvians who abhor Mr Humala's politics could not bring themselves to vote for his opponent. Her defeat means that Mr Fujimori will remain in detention and probably quashes his hopes of founding a dynasty.

Whereas Ms Fujimori surrounded herself with her father's conservative aides, Mr Humala moved closer to the centre. He dropped his original platform and plan to change the constitution. He swore on the Bible to maintain Peru's economic framework. In the end he probably owed victory to the support of Mr Toledo, who won 16% of the vote in April, and of Mario Vargas Llosa, Peru's Nobel laureate for literature.

The main doubt about Mr Humala is that he is not Lula. Brazil's former leader is a politically astute and pragmatic former trade-unionist, who fought a military regime. As an army officer, Mr Humala led one military rebellion and backed another by his brother, who is a fascist. In many ways he embodies the continuing appeal of authoritarianism in Peru. Part of his appeal to poorer voters was that he promised to be harsh on crime and corruption.

The main reason for optimism about his government is that Peru's recent success will constrain his freedom of manoeuvre. Mr Humala's leftist coalition has only 47 of the 130 seats in Congress. Mr Toledo, whose party has 21 seats, is well placed to help-and to put limits on change. It helps, too, that Mr Chavez is a spent force whose main achievement is to have squandered an oil boom. When it comes to models, Brazil trumps Venezuela. In addition, the election showed that there is broad public support for continuity in economic policy.

But it also showed that many Peruvians want the government to do more on social policy. Some of Mr Humala's proposals are sensible enough. He wants to expand a small conditional cash-transfer programme, introduced by Mr Toledo and aimed at helping the poorest Peruvians. He promises to expand child care, and introduce pensions for those who lack them (though unless done carefully this risks undermining efforts to draw more Peruvians out of the vast informal economy). Thanks to the inexplicable neglect of social policy by Alan Garcia, the outgoing president, Mr Humala has the chance to take some easy and popular steps. Trickier will be whether he shows the courage and political intelligence needed to improve the quality of government in Peru, perhaps the country's biggest weakness.

The most controversial issue will be the treatment of mining and natural-gas investment. Mr Humala wants a windfall tax on mining, but says he will talk to the companies first. Much will depend on the details. He seems to have watered down his previous opposition to the export of natural gas. But he backs a law to give a veto-rather than the right to consultation-to Amerindian communities over mining development on their lands.

The new president's new-found moderation applies to foreign affairs as well. Gone is the Chile-bashing of the nationalist *caudillo* who fanned Peruvians' visceral dislike of the neighbour which twice defeated them in 19th-century wars. The United States is a "strategic partner", he said this week. He is likely to follow Brazil's lead in South America. That means he may drop Mr Garcia's plan for a common market with Chile, Colombia and Mexico.

Since he takes over when Peru's circumstances have rarely been better, Mr Humala has an extraordinary opportunity to be a successful president. It has taken spectacular political incompetence on the part of the centrists who engineered the boom to hand the country over to the candidate whom its business and political establishment dismissed as "anti-system". They can draw some solace from the fact that Mr Humala won by pledging to uphold many of the system's pillars.

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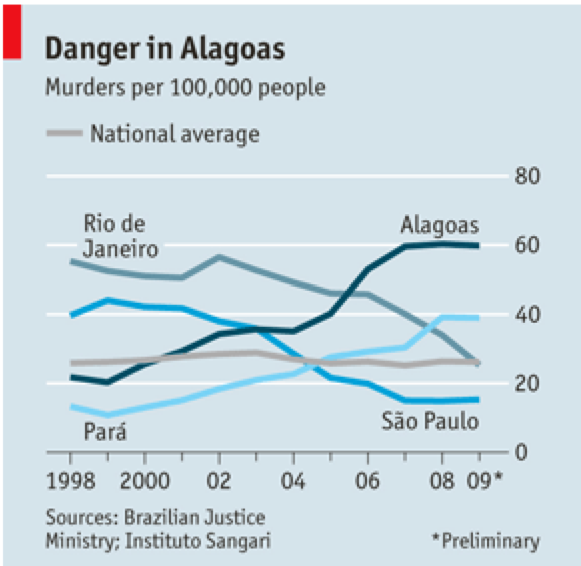
Murder in Brazil

Always with us

Violence continues, but in different places



THE road from Maceio, the capital of Alagoas state, to its airport passes luxury-car showrooms and shops selling outsize Jacuzzis. In the central reservation, indigent families live under plastic sheeting. Even by the standards of Brazil's north-east, Alagoas is scarred by poverty and extreme inequality. With 107 murders per 100,000 people, Maceio is also the most violent state capital in Brazil, just as, with 60 murders per 100,000, Alagoas is the country's most violent state (see chart). It is a place of sugar and cattle, where the sugarcane cutters settle scores with fists and knives and the well-connected escape punishment by using contract killers instead.

Year-round sunshine, beautiful beaches and coral reefs mean tourism offers Alagoas's best chance of development. But its status as Brazil's crime capital puts that at risk. State officials are desperate to point out that Alagoans kill each other, not outsiders, and in slums, not beauty spots. Victims and murderers are often indistinguishable: unemployed, illiterate, drug-addicted young men, says Jardel Aderico, the state secretary for peace, whose job title represents an aspiration.

Brazil's murder rate barely budged during the past decade, at around 26 per 100,000. But the geography of murder changed, notes Julio Jacobo Waiselfisz of the Instituto Sangari, a think-tank in Sao Paulo. In 1998 Sao Paulo and Rio de Janeiro were more violent than average; Alagoas was not. Better policing and economic growth have seen the murder rate fall by nearly two-thirds in Sao Paulo and two-fifths in Rio over the decade. Criminals squeezed out of long-held strongholds followed the money to areas of new industrial development and tourist destinations. Illegal logging and land grabs, together with new cross-border routes for guns and drugs, stoked crime in the Amazon. And Alagoas, its state government debt-ridden and police force weak, corrupt and often on strike, was at times close to lawless.

Things are starting to improve in Alagoas. The World Bank, which in 2009 lent the state $195m to stabilise its finances and improve its management, says the loan targets have been met. It is now working with the state on a plan to eradicate extreme poverty. Alagoas's governor, Teotonio Vilela Filho, recently re-elected for a second term, has bought the police new cars and guns, and ended the practice of appointing police chiefs according to their political connections. Mr Aderico hopes that "peace lessons" in schools will create a less violent generation of Alagoans.

But in the short term the state's best hope of moving down the murder rankings is for others to move up. Local politicians want to split Para, a large Amazonian state, into three. If they succeed, Brazil's map of violence will change once more. Maraba, which would become capital of south Para, would inherit the title of murder capital and spare Maceio its shame.

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Brazil's government

Exit Palocci

The president tries to cut her losses

STAY strong, urged Venezuela's leader, Hugo Chavez, as he embraced Antonio Palocci in front of politicians and photographers on a visit to Brasilia on June 6th. Just a day later Mr Palocci, the embattled chief of staff of Dilma Rousseff, Brazil's president, had resigned. Newspaper revelations last month of his sudden enrichment from political consultancy while a federal congressman from 2006 to 2010 left him open to accusations of influence-peddling. The attorney-general's ruling that there was no evidence of wrongdoing merely provided face-saving cover for his inevitable exit.

His departure, less than six months into her government, is a setback for Ms Rousseff. By swiftly dumping him she has tried to limit the damage. Her choice of Gleisi Hoffmann, a newly elected senator for the ruling Workers' Party (PT), as her new chief of staff is a bold, but risky, attempt to recover the political initiative. Unlike Mr Palocci, who had close ties to Luiz Inacio Lula da Silva, Ms Rousseff's predecessor and political mentor, Ms Hoffmann owes loyalty to nobody but the president herself. "The appointment shows Lula, the PT and every government minister that the president has the courage to exercise her power and make her own choices," says Alberto Almeida, a political analyst in Sao Paulo.

It was the second time Mr Palocci has left government under a cloud. As Lula's first finance minister he was credited with reinventing the former trade-unionist along more centrist lines and persuading him of the merits of fiscal responsibility. His career looked over when scandal forced him to step down in 2006-but worse scandals thinned the leading ranks of the PT to such an extent that Mr Palocci managed to make himself indispensable again. Edward Amadeo of Gavea Investimentos, a fund based in Rio, thinks that without Mr Palocci to counter the PT's left-wingers, Ms Rousseff may over time stray from the macroeconomic straight-and-narrow. But financial markets reacted calmly to his defenestration.

By appointing Mr Palocci in the first place, Ms Rousseff had sent a strong signal to investors that she could be trusted. But he had quickly morphed from an asset into a liability. He was supposed to act as the political enforcer to keep Ms Rousseff's unwieldy coalition in line. But the PT's coalition partners took advantage of his problems to press for concessions. The opposition was fast gathering support for a congressional investigation that would have dominated the airwaves for months.

The choice of Ms Hoffmann came as a complete surprise (her husband, Paulo Bernardo, the communications minister, was hot favourite). Already commentators have christened her "Dilma's Dilma": like Ms Rousseff she is a former bureaucrat plucked from political obscurity and appointed as chief of staff because of her managerial prowess.

The corollary is that Dilma must start acting more like Lula. The best advice he could give to other leaders, Lula told *The Economist* last September, was not to outsource politics. "Whoever was elected must do the politics," he said. "If he sends a proxy in his place, it won't work." It seems that Ms Rousseff has taken that advice. She now has to show that she can be her own political enforcer.

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Canada's cities

Poor relations

Mayors need more money and more powers

WITH glistening office towers rising between broad beaches and forested mountains, big parks and waterfront residences, Vancouver often comes at the top of lists of the world's best cities in which to live. This week, amid much triumphalism from civic leaders, Vancouver is celebrating the 125th anniversary of the moment when a scruffy wooden lumber camp burned to the ground, and the foundations of what is now western Canada's largest city were laid. But for all its picture-postcard image, Vancouver, like other Canadian cities, faces some pressing problems and lacks the means to deal with them.

Those headaches include Downtown Eastside, a ghetto of crime, poverty and drug addiction that is the country's sickest urban area. Soaring house prices intermingle with homelessness. The middle class is being squeezed out to the suburbs. Although the city has lost corporate head offices to Calgary, in oil-rich Alberta, the population of Greater Vancouver is set to rise from 2m to 3.4m by 2041, according to the planners. The city faces a steep bill to expand public transport, upgrade sewers and water systems and repair crumbling civic buildings, roads and bridges.

Vancouver's difficulties are mirrored across the country. Provincial governments have neglected their responsibility for such matters as social housing, welfare, mental illness, drug addiction and policing. All told, Canada's big cities need at least C$238 billion ($243 billion) to repair and expand infrastructure, according to the Federation of Canadian Municipalities. But municipal governments lack both money and powers. They get only eight cents out of every tax dollar. Their revenues come mainly from property taxes. Under constitutional arrangements that date back to the time when Canada was largely rural, mayors have fewer powers than their counterparts in some other developed countries.

The result is that mayors must constantly go cap-in-hand to the provincial and federal governments for money for capital projects. The response has been an array of ad hoc funding for urban schemes. For example, such arrangements gave Vancouver a new convention centre, sports facilities and a fast rail link to the airport, all built for the 2010 winter Olympic games. But municipal leaders across the country want more stable and predictable finances. They have lobbied the federal government to make permanent C$2 billion in annual funding programmes for roads, housing and police set to expire in 2014. In its budget this week the government promised to do so.

Businessmen are starting to worry about urban neglect. The Toronto Board of Trade, a business lobby, recently criticised traffic congestion in the city; it is backing a C$50 billion plan to expand roads and public transport in the Toronto-Hamilton conurbation over the next 25 years.

If federal politicians have hitherto largely ignored this festering urban problem, that may be in part because rural areas continue to be over-represented in the House of Commons. But four out of every five Canadians now live in a city, and most economic activity takes place in them. Unless they receive the public investment they need, Canadian cities will slowly become less desirable places in which to live and work.

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China and opposition to dams

Choking on the Three Gorges

China's government at last owns up to problems at its monster dam

RAIN along the middle and lower Yangzi River this week has helped alleviate the region's worst drought in 50 years. But it has not doused a storm of criticism of the Three Gorges dam upriver, including allegations that it contributed to the disaster. Opponents of the colossal edifice have been emboldened by rare government admissions of environmental and other "urgent" problems caused by the dam.

In private, officials have worried about the project for some time and occasionally their doubts have surfaced in the official media. But the government itself has refused to acknowledge them. When the project was approved by the rubber-stamp parliament in 1992, debate was stifled by the oppressive political atmosphere of the time, following the Tiananmen Square massacre three years earlier. Last July, with the dam facing its biggest flood crest since completion in 2006, officials hinted that they might have overstated its ability to control flooding. On May 18th, with the dam again in the spotlight because of the drought, a cabinet meeting chaired by the prime minister, Wen Jiabao, went further in acknowledging drawbacks.

Having called the dam "hugely beneficial overall", the cabinet's statement said there were problems relating to the resettlement of 1.4m people, to the environment and to the "prevention of geological disasters" that urgently needed addressing. The dam, it said, had had "a certain impact" on navigation, irrigation and water-supply downstream. Some of these problems had been forecast at the design stage or spotted during construction. But they had been "difficult to resolve effectively because of limitations imposed by conditions at the time." It did not elaborate.

The confession has triggered a flurry of articles in official newspapers about the dam's deficiencies. Some recalled a warning given by one of China's most famous critics, Huang Wanli, before his death ten years ago that the dam would silt up the reservoir basin and sooner or later have to be blown up. The *Oriental Morning Post* even filled its front page with a picture of Mr Huang, who was persecuted by Mao Zedong for his criticism of the Sanmenxia dam on the Yellow River. Sanmenxia was the nation's pride until its reservoir silted up. On June 7th *Shanghai Daily*, an English-language paper, called the Three Gorges "that monstrous damming project".

Its effect on the drought is difficult to prove. Officials deny assertions that the dam and its more than 600-km (370-mile) reservoir might have affected the regional climate. But one official, Wang Jingquan of the Yangzi's Water Resources Committee, conceded that the dam had lowered water levels in two of the country's biggest freshwater lakes, making the impact worse. The rapid lowering of the reservoir's level has also raised fears of landslides and earthquakes. Probe International, a Canadian NGO, published a report on June 1st by Chinese government experts saying the dam had caused "significantly increased" seismic activity.

This debate has erupted at a time of heightened political uncertainty as the Communist Party prepares for sweeping leadership changes next year. The government's decision to be open about doubts that had previously been harboured in private could reflect struggles between outgoing leaders and their still-influential predecessors. The earlier generation had been responsible for getting the project started in the 1990s. But President Hu Jintao and Mr Wen did not attend the dam's completion ceremony in May 2006.

For liberal intellectuals, the furore has provided an opportunity to push back against hardliners (who tend to favour grandiose displays of state power). One liberal newspaper published an interview with Mao Yushi, a prominent economist who has been fiercely denounced recently by hardliners because of an article he wrote attacking Mao Zedong. Mr Mao (the economist rather than the Helmsman) contributed to a book criticising the Three Gorges dam which was published in 1989, shortly before the Tiananmen protests. It was later banned.

In the interview Mr Mao accused the government of shuffling off responsibility for the dam 20 years ago by ignoring anti-dam experts and then getting the legislature to approve the project. "If there are any problems in future, you won't be able to find anyone. There is nobody taking real responsibility," he said.

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South Korea

Bulldozer shoved aside

The race to succeed the president gets under way

TO FOREIGNERS, South Korea's president, Lee Myung-bak, has done a decent job. Hosting the 2010 G20 summit raised his profile. Squaring up to North Korea ensured his reputation as a bulldozer travelled beyond the demilitarised zone.

But back home, his time is running out. His poll ratings are plunging; only 28% think he is doing a good job. Presidents have only one term and elections are due in 2012. Jockeying between the ruling Grand National Party (GNP) and opposition Democratic Party has elbowed aside all other debate. Each has a strong contender to win the presidential Blue House.

The GNP's main hopeful is Park Geun-hye, a former party chairwoman and daughter of President Park Chung-hee, the military strongman whose combination of authoritarianism and growth continues to divide Korean society. Ms Park is popular among those who remember "the good old days". But she must be careful not to upset those who remember them for their widespread repression (even President Lee was briefly jailed back then).

Ms Park lost the nomination to Mr Lee in 2007 and since then she and her loyalists have butted heads with the government. Despite serving recently as the president's special envoy in Europe, she keeps her distance. Her block increases the threat of defeat in the National Assembly for Mr Lee. This, combined with his slumping popularity, has led some to describe him as a lame duck.

The main policy difference between the two is over how to distribute the rewards of growth. Ms Park wants what she calls "Korean-style welfare". It is not clear what that means, but the mere mention of the W-word incenses free-market supporters of the president, who fling back charges of populism.

Rising income inequality has made Ms Park's message more attractive than that of the Lee camp, which is splintering. Assembly members from Seoul and Gyeonggi province, worried about losing their seats next year, are beginning to distance themselves from the unpopular president.

Ms Park's main opponent looks likely to be Sohn Hak-kyu. His support among core Democratic Party voters is weak: he defected to them from the GNP only in 2007. But he has proven electoral appeal, having wrested control of the traditionally conservative Bundang constituency in a by-election in April. None of his main party rivals can say as much.

Mr Sohn's DP has a slight lead over the GNP, according to Realmeter, a polling firm. This reflects the unpopularity of the government. But as attention shifts towards the presidential horse race, the parties will start to matter less. Realmeter puts Ms Park 12 points ahead of Mr Sohn.

Opinion in South Korea is notoriously fickle, as those who remember Roh Moo-hyun's upset victory in 2002 will attest. Chung Mong-joon, who backed Mr Roh at the last minute in that election and now plies his trade with the GNP, announced his own candidacy this week. He is guaranteed to fight a colourful campaign but is unlikely to win. For the moment, even though the GNP is divided, Park Geun-hye is the favourite to fill her father's shoes.

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Indian politics

The swami's curse

A populist yogi ties the government up in knots

BUSHY-BEARDED swamis in women's clothing. Gurus on hunger strike. Anti-corruption sit-ins. You might have thought the Indian government would know how to deal with these, thanks to long practice. Yet this week its bungling of a public protest turned a loony yogi who peddles quack cures for AIDS, cancer and corruption into a rallying figure for an angry public and opposition. The muttering about changing leaders is growing.

This week's farce involved the saffron-clad Baba Ramdev, whose wealth, popularity on television and delusions of political grandeur led him to call a fast to the death in Delhi at the weekend. His chosen cause is the repatriation of billions of dollars supposedly stashed abroad by the rich and crooked. He says such cash would pay to wipe hunger from the land. Given public anger over food and fuel inflation, such a claim, however bogus, goes down well.

In more confident times Congress's long-serving leaders would surely have brushed him aside. Pranab Mukherjee, the canny finance minister, has been atop politics for long enough to remember how a much more powerful guru, the "flying swami", Indira Gandhi's yoga teacher, adviser and rumoured lover, was swept into obscurity amid scandals over a personal arms factory and crooked aircraft deals.

Today, the government seems to have lost its touch. Beset by accusations of graft, it may soon have to eject a dodgy-looking coalition ally, a Tamil party thumped in a state election in May. Despite softer economic growth and falling investment, India's rulers have dared launch no reforms or pass any laws of note this year.

Nor has it known how to tackle problems as they flare up. Instead of preventing the guru's protest, or letting it take its course, the government tried to control it. First, ministers got the guru to give an empty promise that his gathering would be called off. Then, when he breezily broke that, as tens of thousands of supporters converged, they panicked and sent in stick-wielding police, who lobbed tear gas and attacked the sleeping camp on June 4th.

Beating sleeping anti-corruption protesters while television cameras roll is not the most sensible public-relations policy. Many demonstrators are in hospital and one has been paralysed. Nor does it say much for India's democratic process, since Mr Ramdev had permission to stage an event (though not, the authorities say, for a mass protest). The saving grace was that the hairy-armed guru was arrested-and photographed-trying to escape while dressed in female attire. Unabashed, he said he would raise a force of 11,000 "so that next time we do not lose any battle".

The gleeful opposition, the Bharatiya Janata Party, says the Congress party is showing all the leadership qualities of a "headless chicken". That insult may be routine, but even senior Congress insiders privately voice dismay.

In April Manmohan Singh's government caved in to another hunger-striker, Anna Hazare, who extracted a big concession, winning for his supporters a right to co-draft an anti-corruption bill. That annoyed parliamentarians and others who say elected politicians, not activists, should write laws. On June 8th Mr Hazare launched another protest in Delhi, while his supporters paraded with posters showing the prime minister, Manmohan Singh, as an incarnation of Ravana, a ten-headed demon of Hindu mythology, shouting "these devils are eating the country".

Perhaps the summer heat is to blame. Perhaps tempers will ease when the monsoon reaches Delhi next month. Yet the bungling shows that Congress's back-room managers face a long-term problem: finding able, youthful leaders they can promote. Mr Singh was dutifully wheeled out to defend the attack on Mr Ramdev's camp, but few believe that he takes day-to-day political decisions. He is 78, and is a technocrat with little appetite for political scrapping. He relies on Mr Mukherjee, only slightly more sprightly at 75. Power is yet further divided, since Sonia Gandhi, Congress's boss, influences political strategy behind the scenes.

For several years, the youthful leader-in-waiting, who was supposed to inject new blood into the tired party, has been Sonia's son, the 41-year-old Rahul. Yet Mr Gandhi, who was arrested (and released) in May while trying to speak up for farmers who had had their land stolen, failed to make much of an impression in recent local elections and is facing the most sustained criticism of his brief career. Until Congress can provide better leadership, expect the opposition, social activists and nutty gurus to take advantage.

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Myanmar

Chinese takeaway kitchen

Three articles look at China's influence in South-East Asia: first; resentment in Myanmar; second, Cambodian rivalries; third, Banyan on the strategic implications

WAIST-DEEP in the muddy water, hundreds of people swirl their pans, scouring the black sediment for the sparkle of gold dust. They have come from all over Myanmar to Kachin state, where the N'Mai and Mali rivers merge to form the mighty Irrawaddy, knowing that a good day may yield $1,000-worth of gold-and that time for gold-panning is running out.

Across the river, the corrugated-iron roofs of a prefabricated barracks glint in the midday sun. They house hundreds of Chinese labourers working on the Myitsone hydropower project. This, according to Myanmar's government, will be the sixth highest dam in the world, and generate 6,000MW of electricity a year. On completion in 2019, the dam will flood the gold-prospecting area and displace more than 10,000 people. All the electricity will be exported to China. All the revenue will go to Myanmar's government. If an environmental and social impact study was conducted at all, it did not involve consulting the affected villagers.

A local Catholic priest who led prayers against the dam says his parishioners were moved to a "model" village, into tiny houses on plots too small for cultivation. The letters of concern he sent to Myanmar's leaders went unanswered. He says he will stay in his historic church "till the waters rise over the doorstep".

Those displaced are not the only ones worrying about the project. The project abuts territory controlled by the Kachin Independence Organisation (KIO), one of a plethora of ethnic insurgencies that have battled the central government for decades. Last year several bombs exploded at the dam site and in May the KIO warned that if the dam were not stopped it would lead to civil war. The KIO's armed wing recently engaged in skirmishes with government forces, despite a notional ceasefire.

The KIO was banned from last year's election in Myanmar because it refused to let its fighters join the government's "border security force". Its threat came as Myanmar's newly installed "civilian" president, Thein Sein, a former general, embarked on a state visit to China.

China has a big stake in Myanmar. It is the country's leading foreign investor. Myitsone is one of many hydropower, mining and infrastructure projects there. China's most ambitious undertaking is a new deep-sea port for oil tankers. Due for completion in 2013, it will take gas from Myanmar's offshore Shwe field and will have the capacity to satisfy 10% of China's oil-import needs.

These close ties are not entirely comfortable for either side. Between 1m and 2m Chinese citizens have moved into northern Myanmar. They dominate the jade-and-gem trade, push up land prices and flaunt their wealth in Mandalay and Myitkyina, where all the posh cars have Chinese number plates. Local resentment is growing. Church leaders in

Myitkyina say Chinese people make up more than half the population. Many Burmese say their northern states are like a Chinese province.

China, for its part, worries about the security of its investments and people. In the past it has leaned on Myanmar's leaders to prevent fighting between the army and the ethnic insurgencies. When conflict broke out in 2009 with the Kokang, an ethnic-Han-Chinese minority, 37,000 people fled to China, provoking sharp criticism of the Burmese junta.

As its economic interests have grown, China has pressed for more access to Myanmar's harbours and territorial waters, to monitor the security of the new port and pipelines, and to keep an eye out for pirates. But this is a neuralgic issue for a country with a deep-seated suspicion of its powerful northern neighbour.

Myanmar's xenophobic leaders are trying to reduce their dependence on China by playing it off against India and the West. But India has been slow in trying to gain a toehold, while America and the European Union have recently extended sanctions on Myanmar. These include America's embargo on backing loans from the World Bank, which would impose higher environmental and other standards on big infrastructure projects such as Myitsone.

So the regime is being drawn into China's orbit as much from necessity as choice. That does not make China any more popular. In the words of an old Burmese monk: "We are China's kitchen. They take what they like and leave us with the rubbish."

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Cambodia

Courting the Khmer

Cambodia struggles to play China off against its other neighbours

TWENTY kilometres (121/2 miles) down the Mekong river from the capital, Phnom Penh, a new container terminal is taking shape on a 30-hectare site. Upstream, two new ports are planned. Whereas other countries that share the mighty waterway favour dams and power plants, the Cambodians are turning the Mekong into a commercial highway. As Sam

Olan, the deputy director of the container terminal argues, the project is tailored to the war-ravaged country's needs: transport by water is cheaper than by road and requires less maintenance-and there are not many good roads anyway.

Like much else in Cambodia today, the new port is being built by the Chinese; 50 or so Chinese engineers and technicians live on site. The Cambodians are confident they will get their new port quickly and on time (it is due to open next year)-one of many reasons why the Chinese are welcome there, as in other poor countries.

As one of the poorest countries in South-East Asia struggles to end its dependence on foreign aid, the Chinese presence has become pervasive. Just down river from the new container terminal is the huge Chinese-built Prek Tamak bridge, which opened last year. The Cambodian prime minister, Hun Sen, recently broke ground on a $46m Chinese-built road linking the capital to the coastal province of Kampot. There, a new Chinese-built hydroelectric power station is about to begin operation-supplying, by one official estimate, half of Cambodia's demand for power. The Chinese plan to build three more. Overall, China accounts for almost half the foreign investment in the country.

China is everywhere, of course. What makes Cambodia unusual is that China has a rival there. Neighbouring Vietnam has had a prickly relationship with Cambodia. Few Cambodians forget that Vietnam invaded their country in 1979, overthrowing the murderous regime of Pol Pot, and then occupied it for ten years. Yet Vietnam is now devoting a lot of time and money to investing in its neighbour.

Trade between the two countries expanded from $950m in 2006 to $1.8 billion last year. In the first two months of this year two-way trade reached $382m, up 65% compared with the same period in 2010. Vietnamese investment is now worth around $2 billion, spread over a bewildering variety of industries, including retailing, agriculture and telecoms. A subsidiary of Viettel, the Vietnamese state telecoms operator, started operations in Cambodia in 2009 yet already has 42% of the mobile market. The company, Metfone, has built many of Cambodia's mobile masts and laid 16,000km of fibre-optic cable, 80% of the network. It also provides handsets to the army.

Other Asian countries are also coming in. Until Vietnam elbowed its way up the league table, South Korea was the second-biggest investor, mainly in construction and banking. It has a vast new trade hall on one of Phnom Penh's smarter boulevards. Thai investors have been buying hotels, and Taiwan has a toehold.

More commercial investment must be good news for Cambodia. But in a country that has for centuries been squeezed by bigger neighbours, the scramble raises concerns about sovereignty-and these are exploited to the full by the small but vocal opposition. It uses Vietnam's projects to attack Hun Sen, the prime minister who (it claims) owes his career to Vietnamese political meddling. And it argues that China's vast presence risks turning the country into a vassal of the Middle Kingdom.

The evidence so far is that Cambodia is using the largesse without being swamped by it. Unlike many other countries that China invests in, tiny Cambodia, with a population of just 14m, has no oil or minerals to trade in return, so China's interest seems to be to gain an ally in ASEAN, the regional block. China claims that its help comes with no strings attached, and so far there has been only one recorded instance of China exploiting its economic presence for political ends (it persuaded Cambodia to return 20 Uighur asylum-seekers in 2009). The Vietnamese foray might be partly strategic too. Vietnam wants to counter the expansion of China which is seen as having hostile ambitions in the disputed South China Sea (see Banyan). If so, Cambodia is enjoying being fought over, and plays one off against the other.

It helps that some of the new influences in Cambodia are not exclusively Asian. The new Cambodian elite looks westward more than it has done for a long while, especially to America. English is more widely spoken than in any other country in the region, and the hundreds of English-language schools that have opened up are packed. Two deputy prime ministers sent their sons to college in America, and Hun Sen's eldest son (and probable successor) went to the West Point military academy.

For the moment Cambodia seems unlikely to fall into any particular sphere of influence. Given its neighbours' size and clout, that is a remarkable-and remarkably difficult-balancing act.

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Banyan

Not littorally Shangri-La

The South China Sea becomes a zone of eternal dispute

CHINA and America make the weather in Asia-Pacific security. A year ago, when policy wonks and defence officials gathered in Singapore at the Shangri-La hotel for their annual "dialogue" on the subject, a chill was in the air. Robert Gates, America's defence secretary, complained about petulant rebuffs from China, which at the time put up a cold front. A hawkish Chinese strategist at the conference was unapologetic, growling that America was "taking the Chinese as the enemy".

This year, when the dialogue reconvened on June 4th, Singapore was deluged by a succession of tropical downpours, but Mr Gates, on the brink of retirement, was in sunnier mood, praising an improvement in China-US relations. China even honoured the event, organised by the International Institute of Strategic Studies, a London-based think-tank, by sending its defence minister, Liang Guanglie, for the first time. By the standards of speechifying Chinese soldiers, General Liang was remarkably affable, praising a "co-operative partnership" with America.

Yet the shifts in tone from the blunt to the bland and in posture from finger-pointing to backslapping have not been matched by progress toward solving any of the two countries' underlying disputes in the region. The biggest concern Taiwan, the Korean peninsula and-which is bound to dominate any forum held in South-East Asia-the South China Sea, where the risks of failing to resolve a mesh of overlapping territorial claims are mounting.

America is not directly involved. But it has declared a "national interest" in preserving freedom of navigation in the sea. Of the 74,000 vessels, carrying one-third of global seaborne trade, that passed through the Strait of Malacca last year, most also plied the South China Sea. Commerce is not in fact under immediate threat. But America, Mr Gates insisted in Singapore, wants to remain an Asia-Pacific power. Ever twitchy about China's intentions, South-East Asian countries hope he means it.

Speaking at another annual regional forum, the Asia-Pacific Round-table, in Kuala Lumpur a few days earlier, Admiral Robert Willard, America's commander in the Pacific, said its navy aimed to maintain a "continuous presence" in the South China Sea. Despite budget constraints, America seems determined to beef up its deployment in the area. China is unlikely to welcome that. Its spokesmen are complaining more loudly about America's habit of sending surveillance ships close to its shores. In 2009 a nasty row erupted when China harassed one. In Singapore Mr Gates blamed China's lack of transparency, saying most of the snooping was into "mysteries" rather than "secrets". China is hardly willing to accept that distinction.

More likely than conflict between the big powers, however, are clashes between China and the smaller claimants to parts of the sea. Of these, Taiwan, still notionally the Republic of China, mirrors the Beijing government's claim. This seems based on a 1940s map giving China virtually the whole sea, ignoring the 1982 United Nations Convention on the Law of the Sea (UNCLOS). The most belligerent of the other claimants is Vietnam, which says it has sovereignty over both the Paracel Islands, in the northern part of the sea, from which China evicted it in 1974, and the Spratlys, farther south (where

the Philippines, Malaysia and Brunei all have partial claims). On June 5th hundreds joined anti-Chinese protests in Hanoi and Ho Chi Minh City provoked by an incident in late May in which a Vietnamese ship exploring for oil and gas had its surveying cables cut by Chinese patrol boats.

Besides a wealth of marine life, the sea is believed to be rich in oil and gas: the "next Persian Gulf" in the words of one excited observer. The countries laying claim to this bounty have all been building up their navies, notably China which this week officially confirmed long-known plans to deploy its first aircraft-carrier. To counter such advances, Vietnam has ordered six Kilo-class submarines from Russia.

In 2002 China and the ten-member Association of South-East Asian Nations agreed to a "declaration" on a code of conduct for the sea. This is a promise to formalise a code minimising the risk that disputes between fishermen or other users of the sea might escalate into conflict. The code has not emerged. But optimists point to the restraint parties have shown since 2002 in not occupying uninhabited islands or specks of rock (though they have been energetically fortifying the places where they already had a presence). Similarly, some were cheered when China's most recent statement of its claim did not include the contentious map, and could even be construed as accepting UNCLOS principles.

Douglas Unfairbank

However, China does not inspire confidence. Around the time when the Vietnamese survey ship had its lines cut, the Philippines reported that Chinese vessels had been spotted unloading building material on an uninhabited reef, known as the Amy Douglas Bank, in waters it claims, apparently to build an oil rig. If so, this would undermine the declaration's one big achievement. "It could be the final nail in its coffin," says Ian Storey of the Institute for South-East Asian Studies in Singapore, author of a new book on China's rise and South-East Asian security.

Even if China does not build on the reef, the perception has taken hold that it is intent on picking off the South-East Asian claimants one by one, starting with the Philippines, one of the weakest. No wonder many in the region will have been cheered by Mr Gates's response to a question about America's commitment: laying a $100 bet "that five years from now the United States' influence in this region [will be] as strong if not stronger than it is today." An even safer bet is that, during that period, hardly any of the plethora of interlocking international disputes in the South China Sea will have been resolved.

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Yemen

Into the unknown

The forced departure of an unloved ruler will not bring peace in a hurry

AFTER 33 years at the helm, Yemen's embattled president, Ali Abdullah Saleh, was finally forced out of the country on June 4th and taken to a hospital in neighbouring Saudi Arabia following an attack on his compound in Sana'a, the capital. His faithful media at first made light of his wounds, describing them as scratches and predicting his rapid return. But it later emerged that Mr Saleh was badly burned, with shrapnel lodging close to his heart. He seemed highly unlikely to come back soon. His vice-president is temporarily in charge. Yemenis now wonder who will take over-and whether even greater chaos can be avoided, as competing factions bid to fill the power vacuum.

Youthful protesters, encamped for months in central Sana'a, exploded with joy when they learned of his departure, dancing in the street and letting off fireworks. Opposition politicians and diplomats were more cautious but assume he will not return. Among outsiders, the government of Saudi Arabia has the most clout to influence the future. Its main aim is to restore a measure of stability, pay Yemen's tribes to keep quiet, and fend off al-Qaeda, which has cells dotted across the more rugged parts of Yemen and still views the Saudi kingdom as a target.

But it will not be easy for the Saudis to achieve these aims. Several times in the past two months the Saudis, at the head of the Gulf Co-operation Council (GCC), had nearly clinched a deal that would give Mr Saleh immunity from prosecution if he handed power to his vice-president within 30 days of signing up, to be followed by elections within another two months after that. On each occasion Mr Saleh reneged at the last minute. The deal may now be resuscitated, presumably without having to give Mr Saleh a month in which to hand over. The Saudis are now fairly sure to tell him that the game is up.

The next step would be for a national-unity government to be formed, consisting of the General People's Congress, which has been the ruling party under Mr Saleh, and an opposition coalition headed by the so-called Joint Meetings Party. American, British and European Union ambassadors have been working closely with their counterparts from Saudi Arabia,

the United Arab Emirates and Oman to propose a plan for the Yemeni parties to endorse within the next day or so and start implementing forthwith. An election deadline of two months will again be laid down, though few think it will be met. An emerging transitional government would write a new constitution and elect a president with mainly ceremonial powers.

But the scope for chaos is immense. Mr Saleh's power base remains strong. His sons and nephews still control most of the security forces, who have set up hundreds of checkpoints on the streets of Sana'a. The vice-president, Abd Rabbu Mansour al-Hadi, is theoretically in charge but lacks the tribal clout or the power of patronage with which to challenge the Saleh family.

Moreover, the official opposition is weak and divided, having long ago been co-opted by Mr Saleh to give Yemen a veneer of democracy. Many Yemenis still respect Mr Saleh for holding the country together for so long, by juggling and paying off its myriad tribes. "This is still a tribal society," says a diplomat in Sana'a. "Saleh survived an attack on a mosque during prayers. He could come back as a hero and you would see hundreds of thousands of his supporters on the streets."

The protest movement on the streets, which sparked the political crisis in the first place, could yet be marginalised, despite the bravery of the protesters, hundreds of whom have been killed. At a press conference on June 8th, leaders of the movement insisted that they would never back the GCC deal. But that could risk their exclusion from formal politics. No clear leader of the opposition has so far arisen.

While civil strife prevails across the country, talk of an election may be premature. Since Mr Saleh's forces moved out of the provinces and into the main cities in an effort to quell the urban revolts, violence in the countryside has increased. In the north the Houthi clan has taken control of land they had long struggled to gain in a series of wars. In the southern province of Abyan Islamist militants said to have links with al-Qaeda have taken over government buildings and caused many residents to flee in panic. Yemen's second city, Taiz, is still seething with unrest. Fighting in Sana'a has died down a bit, though the Hasaba district, where Mr Saleh's loyalists fought a running battle for ten days with the powerful Ahmar family, is a ghostly wasteland of burned-out buildings and shot-up cars. Violence between them could easily resume. Mr Saleh's exit has by no means ended the trouble. Yemen may be chaotic for months or even years yet.

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The Syrian uprising

The balance of power is shifting

The tide may slowly be turning against President Bashar Assad

A MONTH ago seasoned watchers of Syria reckoned that the regime's ferocious crackdown would keep the lid on dissent, albeit with President Bashar Assad's legitimacy badly impaired. Now the prevailing wisdom is changing. Rather than subside, the protests are spreading and intensifying. Having started in the south and spread to coastal cities such as Banias, they moved to Homs, Syria's third-biggest city, and the surrounding central districts. More recently they have gripped Hama, the country's fourth city, famed for its uprising in 1982, when 20,000 people may have been killed by the then president, Hafez Assad, the present incumbent's father. After starting in the rural areas, the unrest has hit cities all over the country. And the death toll, well past 1,200, has begun to rise more sharply. On June 3rd, at least 70 people are reported to have been killed in Hama alone.

The first of two big questions is whether the revolt will get going in Damascus and Aleppo, the capital and Syria's second city respectively, which have been relatively but by no means entirely quiet. The second big question is whether the security forces, on which the regime was founded when Assad *pere* took over in 1970, will stay loyal. If the army's middle and lower ranks, drawn mainly from the country's Sunni majority, which comprises some 75% of the population, begin to turn against the senior ranks where the Alawite minority (10%, including the Assad family) predominates, the regime could begin to fall apart. The events of June 5th in the town of Jisr al-Shughour, near the north-western border with Turkey, suggest that this may be starting to happen.

An accurate version of what happened there is hard to confirm, because independent reporters are banned from Syria and the state media have plumbed the depths of mendacity. Usually, however, they flag up an event and give an indication, sometimes unintentionally, of its magnitude. Then they set about rearranging the facts. In the case of Jisr al-Shughour, they at first said that 20 members of the security forces had been killed in an ambush "by armed gangs" and then, within an hour, raised the figure to 120, declaring that "decisive" action would be taken as part of the state's duty to protect its citizens. Probably the death toll has indeed been high.

But who killed whom remains unclear. Theories abound. Residents say people have been fighting back after helicopters and tanks killed at least 40 civilians during the weekend. Tanks have been massing menacingly around the city. But well-informed Syrians surmise that the number of dead servicemen was exaggerated in an effort to make ordinary people rally to the regime and that most of the victims were killed in clashes between the police and the army or within some security-force units after their members tried to defect or to mutiny-the last two possibilities being the ones that must really scare Mr Assad.

The killing in Hama on Friday June 3rd was also a watershed. Many thousands went onto the streets, to be met by a volley of gunfire. The unrest continues to spread. Idleb, the province around Jisr al-Shughour, is up in arms. Homs is still boiling. Deir ez-Zor, in the remote east, is seething too. Thousands of protesters have poured onto the streets. Security forces have been burning their fields. People are terrified they will be the next victims of the crackdown.

Eyes are now turning on Damascus and Aleppo. The uprising has hitherto been fiercest in rural areas. During the Baath party's early days in power in the 1960s, its officials were often rural types who sought support for the Baath's socialism from poor villagers. But Mr Assad has neglected those roots, favouring urbanites, including merchants and religious leaders. The villagers, by contrast, have suffered from bad conditions, drought, rampant unemployment, and the corruption and bullying of state officials.

Damascus has not, in any case, been completely quiet. Angry protests have taken place in Kafr Souseh and are continuing in Midan, districts in the heart of the city, and there have been many small protests. Aleppo, haunted by a crackdown against Islamists in the 1980s and still heavily policed, may be the last city where people will take to the streets en masse. But unrest is growing there too.

Across the country, a growing number of religious leaders are weighing in behind the protesters. More of Syria's minorities, such as Christians, who have looked to Mr Assad for protection, may also be joining in. The several hundred thousand Palestinians who reside in Syria may also be turning against him (see article). On June 6th there were clashes in Yarmouk, the biggest refugee camp, on the edge of Damascus. "We're getting to a tipping point, where groups waiting for a balance of power to change will move," says a veteran analyst in Damascus. The influential Qatar-based television channel, Al Jazeera, reported that a member of the Tlass family, a Sunni clan that has been close to the president, had defected. He contradicted the government's line that the army is fighting against armed rebels.

At first Western governments, including America's, were loth to call for Mr Assad to go, hoping he could still set about reforms and open Syria up. But his exceptionally brutal use of force has alienated those who had hoped to embrace him. The French government has declared his rule "illegitimate". The language of a draft resolution being circulated by Britain and France at the UN is hardening. The Russians and Chinese are still reluctant to let a resolution pass-but may consider abstaining, as they did over Libya, if Mr Assad plainly starts to lose his grip. On every front, he is looking weaker.

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Israel and diplomacy

Don't think about September

Israel's belligerent prime minister likes to deflect his people's attention

UNARMED Palestinian refugees clambering across the Syria-Israel border and getting shot by Israeli troops may provide a useful diversion both for Syria's beleaguered president, Bashar Assad, and for Israel's prime minister, Binyamin Netanyahu. The Palestinians, all of them apparently from camps in Syria, made their first attempt at breaching the fence on May 15th, the anniversary of Israel's founding, known to Palestinians as the *naqba*, or catastrophe. Hundreds crossed the line near the Druze village of Majdal Shams, on the Golan Heights, which were annexed by Israel after the war of 1967. They caught the Israeli army unawares. At least three were shot dead.

On June 5th, the anniversary of the *naqsa*, or defeat by Israel in 1967, they tried again. This time the Israelis were waiting and no one got across. The Syrians say two dozen people were shot dead. The Israelis disagree. They say ten demonstrators were killed near the border town of Kuneitra, when their own Molotov cocktails triggered border anti-tank mines.

For Mr Assad, television pictures of killings by Israelis may be a relief from scenes of Syrians dying every day at the hands of his own security men in cities across the country. Hence the ease with which the demonstrators got to the border zone, which is usually blocked to Syrians. But on June 6th Syrian army roadblocks prevented them from coming back, while in the huge Yarmouk refugee camp on the edge of Damascus mourners burned the office of the Popular Front for the Liberation of Palestine, a radical group, blaming it for sending the demonstrators to their deaths.

For Mr Netanyahu, facing the prospect that the UN General Assembly may vote in September to recognise Palestine as a fully independent state, the border assaults feed his argument that the Palestinians still want all of Palestine, denying the existence of a Jewish state on part of it. The demonstrators on the Golan demanded the right to "return to Haifa and Jaffa", the latter long since subsumed by Israel's biggest city, Tel Aviv. By demanding that those places be part of their state, those Palestinians seem not to endorse a "two-state solution".

Nor, in practical terms, does Mr Netanyahu. He is at loggerheads with Barack Obama over how to proceed with a peace process. He is battling now against a French attempt to call a conference in Paris next month on the basis of Mr Obama's formula that so annoyed him last month: that the starting point should be the 1967 line, with mutually agreed land swaps and security provisions. Israeli and Palestinian emissaries have been in Washington meeting American officials separately to look for a way forward-so far in vain.

There is almost no opposition in Israel to the firing of live ammunition to keep out the Palestinian border demonstrators, unarmed or not. Opinion polls have rewarded Mr Netanyahu generously for his very public recent rejection in Washington of Mr Obama's peace ideas. The prospect of the UN vote in September is a cloud on the horizon: Israelis know it could lead to greater ostracism, but Mr Netanyahu seems confident Israel can weather it.

Wrong and dangerous, says Meir Dagan, who for eight years until January headed Mossad, Israel's foreign-intelligence service. Mr Netanyahu's judgment is not to be trusted, he says. The prime minister and his defence minister, Ehud Barak, may even decide to bomb Iran's nuclear plants to deflect attention from what Mr Barak has called the "tsunami" in September. General Dagan was a longtime military comrade and political ally of Ariel Sharon, who, as prime minister, put him in the Mossad post. Mr Sharon harboured an unwavering contempt for Mr Netanyahu.

Mr Dagan warns that an attack on Iran would be "stupid" and would trigger a regional war, "and in that case you would have given Iran the best possible reason to continue the nuclear programme." Mr Dagan laments Israel's failure to put forward a peace initiative of its own or to accept, at least in principle, the Saudi peace initiative of 2002, whereby the Arabs would recognise Israel if it withdrew to the 1967 border.

He is the latest of a succession of retiring generals and top security men to have urged concessions, warning that a stalemate could provoke another Palestinian *intifada* (uprising) or even a regional war. General Dagan says that Gabi Ashkenazi, who headed the armed forces, and Yuval Diskin, who until last month ran the internal-intelligence service, the Shin Bet, both agree with him. "People would do well to listen to Dagan," says Yaakov Peri, another former Shin Bet boss.

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Palestinian reconciliation

A long way to go

The Palestinians are struggling to form their heralded unity government

GAZA'S governors rarely miss a chance to flaunt the trappings of power. Ismail Haniyeh, the prime minister, a leading figure in Hamas, an Islamist movement once noted for its puritanical modesty, steps from a shiny black Mercedes into one of the strip's squalid refugee camps to open a repainted clinic. After inspecting a guard of honour, he climbs a podium to greet Hamas's assembled notables, as a loudspeaker blares out an array of titles and praise. He does not give the impression of a man about to step down.

Perhaps it is unsurprising that neither Hamas in Gaza nor its secular rival, Fatah, which rules the West Bank, seem keen to bow out, despite a much-vaunted reconciliation pact that provides for their replacement with a unity government of technocrats, owing allegiance to neither group, who would rule both parts of a newly declared Palestinian state. Five weeks after signing the agreement in Cairo, the two sides have missed repeated deadlines for creating the government. It may take months before it is in place.

One snag is that Khaled Meshal, who heads Hamas's politburo from Damascus, breezily agreed to weave Hamas back into the wider Palestinian body politic without properly checking whether his government in Gaza would follow. "He surprised us," says a Hamas minister in the strip.

The Cairo agreement provided for both faction's forces-Hamas's in Gaza and Fatah's in the West Bank-to retain control of security, at least in the short term. But it failed to mollify people in the bureaucracies and institutions that each side had built during four years of rule in the two territories. The 20,000 civil servants appointed by Hamas in Gaza fear demotion or dismissal if Fatah people, ousted when Hamas took over, return to work. Palestinian civil servants on the West Bank fear that Israel and Western governments may cut off the funds for their salaries on the ground that, if the new unity government is endorsed by Hamas, they will be abetting a terrorist outfit.

Egypt is pushing the parties towards reconciliation, the Europeans have been voicing support and the Americans, though badgered by Israel and its friends to condemn the unity government out of hand, have refused to do so. But Hamas is continuing to berate Mahmoud Abbas, the Fatah leader who heads the Palestinian Authority, for contemplating negotiations with Israel. Hamas is also demanding that he stops all security co-ordination with Israel on the West Bank.

Leading Hamas people in Gaza are afraid lest a technocratic, business-friendly government in Gaza impede their Islamist plans. While Mr Haniyeh opens a clinic for poor refugees, the company owned by Munib al-Masri, a tycoon who is mooted as a possible prime minister in the unity government, puts the finishing touches to a nearby glaringly opulent hotel, al-Mashtal, replete with a two-tiered swimming pool and open-air jacuzzi. The hoteliers want a new government to grant licences to sell alcohol, now banned in the strip. But Hamas's police chief promises that, whoever runs the government, he will keep Gaza dry. At the ceremony nearby, the Hamas interior minister with a pilgrim's white cap declares that the clinic will help raise a people fit for *jihad*. Mr Masri's hoteliers, by contrast, tout Gaza as a tourist resort with a marina and women in bikinis at peace with the outside world.

In any event, Hamas people certainly resent those who are poised to return. When Fatah's foreign-affairs chief, Nabil Shaath, recently visited the strip for the first time in years, Hamas forced Gaza's chamber of commerce to cancel a reception in protest against Fatah's apparent refusal to let Islamist charities in the West Bank resume operations. Fatah flags which briefly flew in Gaza after the reconciliation pact are again being furled. Hamas security forces are again banning youth groups demanding unity from holding indoor rallies. "There's no reconciliation," says a unity promoter. "Fatah and Hamas are lying."

We want our own man

Negotiators are still arguing over whom to appoint as prime minister. Whereas Mr Abbas wants to keep Salam Fayyad, a former IMF man admired by Western governments for revamping Palestinian finances during his four years in the job, Hamas suggests replacing him with Mazen Sinokrot, a Jerusalem businessman and wheeler-dealer. He has traded with Israel's largest fruit-and-vegetable wholesaler; the American aid agency, USAID, helped him set up the only Palestinian packaging operation that can dispatch containers of farm produce from the West Bank without Israeli security checks. At the same time, he has helped Islamic charities close to Hamas.

But choosing a prime minister is not the only bar to forming a unity government. Fatah is still loth to let Hamas join the Palestine Liberation Organisation, the national umbrella that Fatah has dominated, for fear it might take over. Above all, Hamas is twitchy about relaxing its military grip over Gaza. "If a new government tries to co-ordinate with Israel in Gaza, as Fatah does in the West Bank, everything will explode," says Hamas's police chief.

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Botswana

Not so perfect after all

Belts are being tightened and whips cracked in one of Africa's richest places

FOR the past four decades or so, Botswana has been Africa's golden boy. The former British possession has grown as fast as almost any country in the world. It has built an enviable reputation for good governance and political stability. It has a decent record on civil liberties and a relatively free press. Once one of the world's poorest countries, it now ranks among the richer middle-income ones. A lot has to do with the discovery of diamonds, of which it is the world's biggest producer, soon after independence in 1966. But unlike many other mineral-rich countries, it has invested wisely. It has been ranked as Africa's least corrupt country.

But for the past two months it has been shaken by its first nationwide public-sector strike. Botswana's 2m people, generally a deferential lot, were shocked when their normally unarmed police used tear-gas and rubber bullets to disperse rioting secondary-school pupils after they went on the rampage in April. The government closed all state schools, though they have since reopened.

The affair started as an ordinary pay dispute. Permitted for the first time to join trade unions under a new law, the country's 120,000 public-sector workers promptly demanded a 16% pay rise after a three-year wage freeze. The government, pleading poverty following a slump in the diamond market during the global recession, offered just 5%, conditional on future economic growth. Eager to flex their muscles, the newly formed unions stood their ground. But the government, the country's biggest employer, accounting for 40% of formal jobs, also refused to budge.

On April 18th the unions called an all-out strike, claiming that 80% responded. Even at its peak, says the government, no more than half of its employees walked out, leaving most ministries and services operating more or less normally. But the government has dealt with the dispute with a heavy hand, firing 1,400 striking health workers, including some 50 doctors, claiming they were providing an "essential service" and as such were banned under the constitution from striking. Worn down by almost two months without pay, the unions have agreed to accept the government's revised unconditional 3% offer, provided all sacked workers are reinstated. This the government is refusing to do.

The three main opposition parties along with some members of the ruling Botswana Democratic Party (BDP) have sought to jump on the bandwagon by coming out in support of the strikers. The BDP, in power for the past 45 years, was recently hailed by President Ian Khama, son of its founder and the country's first president, Sir Seretse Khama, as "one of the most successful ruling parties in the world". But it has been riven by factions. Last year a group of BDP backbenchers, claiming that the president, who used to run Botswana's army, had become too authoritarian, broke away to form the Botswana Movement for Democracy (BMD). But this still left the ruling party with a fat majority.

Fired by the strikers' determination, the three main opposition parties, hitherto divided and fractious, have been trying to form a united front in alliance with the unions. A new generation of opposition leaders believe they at last have a sporting chance of breaking the BDP's grip, though few people think it could happen soon.

One way or another Botswana is facing change. Its diamond bonanza, which accounts for nearly half the government's revenue and over a third of its GDP, will not last much longer. Production has peaked and deposits may be exhausted by 2030. Growth has been slowing from an average annual rate of 13% in the first five years after independence to 5% in 2000-05 and 3% since then, including a 5% contraction in 2009-10. Last year it bounced back to 7% and is expected to remain at about that level for the next two years. But the government may not be able to keep spending at its present level of 40% of GDP.

For the first time since independence, the budget is in deficit. The World Bank has urged the government to slash its bloated public workforce by a quarter. But Mr Khama is resisting. With an official jobless rate of 17% (and a real one probably closer to 30%), he says he is loth to turf more people out of jobs. But neither, he insists, can Botswana go on living beyond its means.

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Portugal's election

A grim inheritance

The next Portuguese prime minister promises much, but promises are cheap

PEDRO PASSOS COELHO, Portugal's prime minister-elect, cannot be faulted for a lack of ambition. After a decisive victory in the election on June 5th, he faces the daunting task of pushing through the reforms demanded by the euro78 billion ($115 billion) IMF/ European Union bail-out. But the 46-year-old leader of the centre-right Social Democrats (PSD) wants to go further. "We will be much more ambitious," he insists, outlining plans for social security, health and education reforms that go beyond the rescue package. He wants to meet deficit-reduction targets ahead of schedule and extend the privatisation programme to include water utilities and the postal service. The aim is to "surprise" investors so that Portugal can resume borrowing in the capital markets.

Yet Mr Passos Coelho, a former manager, has had no experience in government and indeed only a short time in politics. He will at least have the benefit of a solid majority in parliament. The PSD surpassed most poll forecasts to win 39% of the vote, against 28% for the ruling Socialists led by Jose Socrates, the outgoing prime minister. Although it fell short of a majority in its own right, the PSD won enough seats to form a coalition with the conservative People's Party (CDS-PP), which took 12% of the vote. The coalition will have at least 130 of the 230 seats, bringing much-needed stability after almost two years of minority government under the Socialists. This is a further advance for the centre-right, leaving only five centre-left governments in the 27-member EU. Mr Socrates, prime minister since 2005, quit as Socialist leader after the party's worst election defeat in more than 20 years.

The son of a country doctor who grew up in the former Portuguese colony of Angola, Mr Passos Coelho was little known before his first (unsuccessful) bid for the PSD leadership in 2008. Senior figures in his notoriously fractious party dismissed him as a lightweight populist, but he won the leadership in March 2010. A baritone who sings Fado and opera, he once auditioned (unsuccessfully) for a Portuguese version of "My Fair Lady".

He will need every ounce of his determination. With Portugal facing two years of recession and record unemployment, Mr Passos Coelho is committed to realising both harsh spending cuts and economic growth. After taking office in two weeks' time, he will have just two months before the first EU/IMF mission arrives in Lisbon to assess his progress. Under their tight deadlines, he must implement some 100 measures by September and 200 by the end of the year. These include such thorny issues as reducing compensation payments for dismissed workers, increasing national health charges and selling "golden shares" in the big utilities.

Mr Passos Coelho wants to forge a "social contract" between government, employers and unions. But he faces growing resistance from unions opposed to labour-market reforms. "An arithmetical majority is not the same as a social majority," Manuel Carvalho da Silva, a labour leader, declared this week. The new government's plans for a "pragmatic constitutional revision" to ease reforms will need support from the Socialist opposition. This might not be forthcoming from a party expected to move to the left.

Exerting pressure from the other direction, business leaders are adamant that there should be no deviation from the IMF/EU plan. Pedro Ferraz da Costa, who heads a business think-tank, says no Portuguese party in the past 30 years would have put forward so radical a reform programme. He adds that Portugal cannot afford to miss this opportunity.

Mr Passos Coelho's bold ambitions to go further are partly intended to demarcate Portugal from Greece, where a failure to hit fiscal targets has led Athens to seek a second bail-out. But his election manifesto introduces an element of liberal thinking that is new to the dominant political consensus, which is based on a strong welfare state. He wants to see the private sector run national health clinics, for example, and to allow companies to offer alternatives to publicly financed social security.

During the election campaign, Mr Socrates accused Mr Passos Coelho of using the IMF/EU bail-out as a pretext for putting forward "the most radical right-wing programme ever presented in Portugal". That charge failed to sway voters. But some economists question how much the new government can change the political culture that has dominated Portugal for the past 30 years. "In economic terms, Portugal is the least liberal country imaginable," says Francisco Sarsfield Cabral, an economic analyst. "The economy has depended on a paternalistic state throughout most of our history, previous PSD governments included."

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Standards in French public life

After DSK

The Strauss-Kahn case is changing an old tolerance of sexual peccadilloes

A YEAR ago a French senator was found guilty of sexually harassing a female employee. It had taken four years for the complaint to be judged, and a further two before his appeal was rejected. The Socialist senator, Jacques Maheas, was fined, but he kept his seat. His trial and conviction went almost unreported. Fast-forward to last month, when a junior minister, Georges Tron, was accused of sexual harassment by two female ex-employees. He denied the charges. The story was splashed on the front pages. A week later he had lost his job.

How the mood has changed since the arrest in New York of Dominique Strauss-Kahn on charges of sexual assault and attempted rape. This week, the ex-IMF boss pleaded not guilty in court. His trial is not expected before the end of the year. Yet the aftershocks in France have already been felt. The sharp contrast between the reactions to the conviction of Mr Maheas and to allegations against Mr Tron suggests a shift in attitudes to French public life.

The sight of an American court taking seriously the word of an African immigrant chambermaid against that of a rich, powerful man has been sobering in France. The country may have ousted its monarchy, but it treats its elite as a caste with special privileges. Ministers seldom resign promptly, even after scandals unrelated to the bedroom. Earlier this year, President Nicolas Sarkozy dithered before ditching Michele Alliot-Marie as foreign minister over her ties to the discredited Tunisian regime. Last year, he hesitated before dismissing one minister who charged euro12,000 ($17,500) of Cuban cigars to the taxpayer, and another for hiring a private jet to attend an anti-poverty conference. He waited months before dumping Eric Woerth, his labour minister, over an inquiry into political favours and party financing linked to the Bettencourt family, heirs to the L'Oreal cosmetics empire.

As for sexual harassment, cases rarely surface. Politicians dismiss accusations as vengeance or fantasy; women, sometimes threatened, fear for their jobs or reputations; the press steers clear.

The DSK affair is changing all this. It "has been a catalyst," says Valerie Toranian, editor of *Elle*, a magazine. "There will be a before and an after." The two women who accuse Mr Tron of sexual assault after foot-massage sessions, a technique in which he is apparently particularly expert, came forward after DSK's arrest. As impunity crumbles, old rumours resurface. A Moroccan group against child abuse has filed a complaint against an unnamed French ex-minister for sexual relations with minors in Marrakech.

Overnight, the French seem to have found that their democratic temples of liberty, fraternity and equality are in fact hotbeds of sexism and predatory behaviour. One female minister, Chantal Jouano, says she cannot wear a skirt in the National Assembly without attracting comments. "In politics," said another, Nathalie Kosciusko-Morizet, "sexism is so encrusted in social structures that some men are not even aware of the chauvinistic nature of their reactions."*Liberation*, a left-leaning newspaper, ran a headline "Enough of Machos".

The post-DSK outbreak of zero tolerance may embolden victims to expose more egregious behaviour. Yet there will be limits. Mr Sarkozy ditched Mr Tron over unproven charges of sexual assault. Yet he has a serving minister, Frederic Mitterrand, who once wrote a book about paying for sex with "boys" in Thailand. Some editors still say they will not dig into private lives. It may be even harder to shift attitudes. Marie-Claire Restoux, an ex-judo champion and councillor in a Paris suburb, decided not to sue Patrick Balkany, mayor of another Paris suburb, for what she describes as repeated verbal sexual advances. This weekend, in a television documentary, Mr Balkany laughed off her accusations as "totally false". After a pause, a broad grin spread over his face: "Maybe it's precisely because I didn't do anything."

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Germany's media

Nostalgie de la boue

Germans rediscover a yen for rural life

IN THE pages of *Landlust* people take time not just to bake bread but to build their own ovens. Children canter on broomstick horses. Old clothes become quilted slippers. Each bimonthly issue celebrates the cosy, bygone, hand-wrought and flower-dappled. Nothing jarring or turbocharged intrudes.

Landlust (the title suggests fondness for nature, not rapacity) was launched in 2005 by an agricultural-trade publisher. Its circulation is now 800,000. Copycats (*Mein schones Land*, *Landleben*) have crowded in. Circulation of home and gardening magazines grew by 3.3% in 2010. It inspires food (new jams made from local fruit), books ("*Landlust*: self-discovery in the German provinces") and satire ("today we fry a giant mushroom", sings an entertainer).

The formula mixes escapism with authenticity. "We are bombarded with negative news," says Ute Frieling-Huchzermeyer, the editor. "We have to focus on positive things that we can draw strength from." The new outbreak of *E. coli* will probably not feature. Yet *Landlust* insists on being "true and real." Photographs feature ordinary folk, not supermodels.

Interiors are shown with their own furniture. This makes *Landlust* different from Britain's posh *Country Life*. "We meet our readers on their level," says Mrs Frieling-Huchzermeyer.

Most readers are middle-aged women on good incomes. They are not alone in being beset by modern life but, argues Stephan Grunewald, author of "Germany on the Couch" and sometime adviser to *Landlust*, Germans suffer more. The French have a stronger national identity, buttressed by good living. Germans, trapped on "the hamster wheel of life", have lost touch with the "art of living", how to cook, talk to their spouses, and raise their children.

Landlust's rural nostalgia is really a descendant of 19th- and 20th-century back-to-nature movements like the nudist *Freikorperkultur*, argues an essay in *Die Zeit*, a weekly newspaper. *Vegetarische Warte* ("vegetarian view") was the *Landlust* of 100 years ago. Today's *Landlust* beckons readers to reconnect with what they have lost. Its real subject, says Mrs Frieling-Huchzermeyer, is not the countryside but "our roots".

It is strictly apolitical, but Mr Grunewald sees a link between its success and the rise of the Greens. *Landlust* readers, like Green voters, spurn the "culture of maximisation", which is why the magazine is cautious about taking advertising. Winfried Kretschmann, the new Green premier of the state of Baden-Wurttemberg, has been dubbed the "*Landlust* politician". It will do him no harm.

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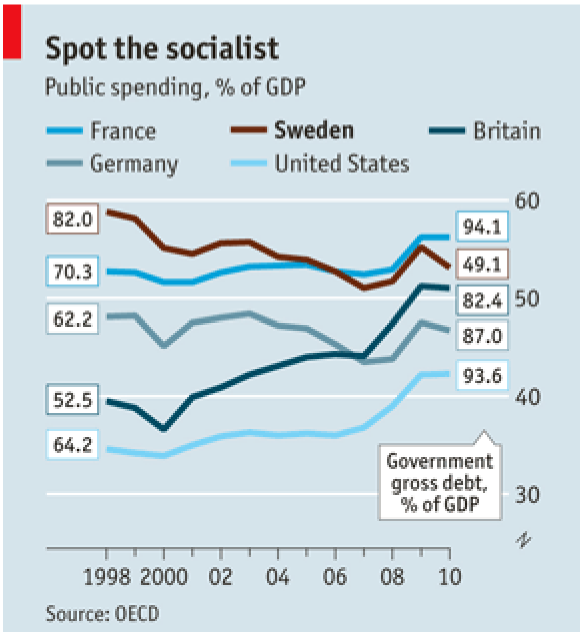
The Swedish economy

North star

Unlike much of the rest of Europe, Sweden is roaring ahead

ANNUAL growth as high as 6.4% in the first quarter. Unemployment falling fast. The budget in surplus this year. Public debt heading to below 40% of GDP. How did the Swedes do it?

Luck, partly. Like Germany, Sweden is a big manufacturing exporter. In both countries GDP rebounded in 2010 after a sharp fall in 2009. Being outside the euro helped, because the krona fell before climbing back. But the main answer is the prudent pro-market policies of Fredrik Reinfeldt's four-party centre-right coalition, which came to power in October 2006.



As Mr Reinfeldt's capable (and pony-tailed) finance minister, Anders Borg, explains, Sweden learned a lot from its banking bust in the early 1990s. Budgetary rules and bank supervision were strengthened, helping to avert the risk of another bubble. Tight fiscal policy has pushed the public sector's share of GDP down to only just over 50% (see chart): Mr Borg has ambitions to get it below Britain's. Without dumping the generous Swedish social model, the government has tweaked it in the direction of lower taxes and smaller welfare benefits. Mr Borg calls this "reinforcing the work ethic". Mr Reinfeldt talks simply of making work pay.

The results have been spectacular. After long being a case study in jobless growth (except in the bloated public sector), Sweden has become a big creator of private-sector jobs. The government has narrowed the "tax wedge" that deters employment and whittled away at sickness benefits: Sweden no longer stands out for welfare excesses. The retirement age has risen to 67. Inheritance and wealth taxes have gone. Mr Borg and Mr Reinfeldt believe firmly in ownership as a driver of prosperity.

Economic success is changing politics, too. Mr Reinfeldt's coalition narrowly failed to win a majority last September, and his minority government has lost a few votes in the Riksdag. But his Moderates look well placed to oust the Social Democrats in 2014 from their 90-year-long status as Sweden's biggest party. A lacklustre new Social Democratic leader, Hakan Juholt, has inspired neither the voters nor his party. Mr Reinfeldt is also trying to lure the Greens from their link with the Social Democrats. That might give him other options were any coalition partner to fall below the 4% threshold for Riksdag seats.

Mr Reinfeldt's success has not gone unnoticed abroad. He is a good friend of Britain's David Cameron (he refers to him simply as "David"), who is of a similar age and also in a coalition with liberals. Mr Cameron's government is interested in Sweden's education reforms (Swedish free schools inspired British academies) and health care. Unlike Britain, Sweden is happy to let private schools and hospitals make profits from taxpayer-financed services if outcomes are better.

One of the few clouds on the horizon is the Sweden Democrats, an anti-immigrant party that helped to deprive Mr Reinfeldt of a majority. Mr Reinfeldt concedes that the Sweden Democrats will remain in the Riksdag but insists no mainstream party will talk to them (unlike their equivalents in Denmark and Finland). He has no plans for tougher immigration or asylum controls, and is proud that his government made it legal for asylum-seekers to work.

Some 40 years after becoming the only continental European country to switch its motoring from left to right, Sweden is making a similar political shift. By 2014 Mr Reinfeldt will have been in power for eight years. Given the economy's strength, few would bet against his winning again. To many on Europe's left, Social Democratic Sweden was once a statist paradise. Now it is the right that looks north for inspiration.

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Russia-EU relations

From cukes to nukes

Russia and the European Union are running out of things to talk about

"CUCUMBERS that people die from after eating really stink." As a contribution to the history of Russia's relations with Europe, it is hardly up there with Dostoyevsky or Turgenev. But Vladimir Putin's peppery comment on the outbreak of a deadly strain of *E. coli* in Germany, to which Russia responded with a ban on imports of fresh vegetables from the European Union, neatly sums up a relationship that in two decades has gone from enthusiastic engagement through mistrustful rancour to weary resignation.

This week EU and Russian leaders were meeting in the Russian city of Nizhny Novgorod for a summit. EU officials say the vegetable ban, which they see as an outrageous overreaction, violates the rules of the World Trade Organisation,

which Russia hopes to join by the end of 2011. For its part the Kremlin wants a more liberal visa regime for Russians travelling to the EU.

Few expect progress even on these smallish issues. Recent summits have been largely empty affairs. Many officials dismiss the biannual meetings. Fyodor Lukyanov, editor of the journal *Russia in Global Affairs*, says he used to watch these summits closely. Now, he notes, there is nothing to pay attention to. One problem, says Andrew Wilson of the European Council on Foreign Relations, a think-tank, is that the EU's "supranational" approach, with collective positions agreed on beforehand, does not suit the Russians, who prefer dealing directly with national leaders or even companies. In any case EU positions are often undermined by individual countries pursuing their own interests, opening the way for Russia to play divide-and-rule, especially over energy.

The Russians see Europe as a source of useful technology and a holiday destination; their elites spend time and own property there. But Russia prefers to be judged against other fast-growing BRIC economies rather than an ageing, sclerotic Europe. "Europe is no longer the sole source of inspiration for modernisation in Russia," says Mr Lukyanov. Russia depends on the EU for half its trade. But trade with China doubled last year.

There should be plenty for the Europeans and Russians to discuss. With several EU countries, including Germany, going wobbly on nuclear power, Russian gas may be needed to make up the shortfall, if only temporarily. Systemic corruption in Russia and anti-graft laws in the West are deterring European investors. Another issue is the "neighbourhood", particularly Ukraine, Belarus and Georgia. Having made much fuss over the Kremlin's claim to have a "special sphere of interests" in the former Soviet Union, the EU has done little to stop Russian meddling. The post-cold-war trend of spreading European institutions and values eastward has given way to a westward expansion of Russia's corrupt and autocratic model.

With the prospect of NATO membership for Ukraine and Georgia fading, European integration could be the best way to offer long-term security to the region. Instead, Ukraine-a country of 46m people-seems only to cause fatigue in Brussels. Georgia is seen as America's problem. Belarus has moved further from the EU after its dictatorial president, Alyaksandr Lukashenka, stepped up repression following December's stolen election.

Few in the EU any longer see membership for any of these countries as a strategic goal. Russia exploits this. Ukraine seems to be emulating it. Georgia is subject to harassment by Russian security services; the Georgians say they now have clear evidence of Russian involvement in a recent spate of bombings. Nor does Russian influence stop at the old Soviet borders. The Kremlin has strong ties with certain European politicians, including Silvio Berlusconi, the Italian prime minister, and Gerhard Schroder, a former German chancellor who chairs the Nord Stream pipeline consortium.

In the early 1990s Russia longed to be a "normal" European country. Today, that goal looks further off than ever. Paradoxically, the Kremlin believes convergence has taken place-not because Russia has embraced European values, but because those values turn out to be so flexible.

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Turkey's bitter election

On the last lap

The ruling party heads for re-election after a polarising campaign

IT IS now official: women should have babies and stay at home. That was how feminists greeted this week's announcement by Turkey's prime minister, Recep Tayyip Erdogan, that he would scrap the ministry for women, along with seven other cabinet jobs. Coming days before the June 12th election, it has raised fears that a third term for Mr Erdogan's mildly Islamist Justice and Development (AK) party could embrace a new puritanism.

Mr Erdogan suggests instead a ministry for "family and social policies...as we are a conservative democratic party, we need to strengthen the family structure." His words set off alarm bells among those who recall the AK government's previous efforts to criminalise adultery and Mr Erdogan's calls for women to have at least three children. He is fiercely against day-care centres. Those who entrust their children to others, he said, would end up alone in old-age homes. "Do the maths," snaps Hulya Gulbahar, a feminist lawyer. "He wants us to have three children and stay at home. In other words, no career for at least 15 years."

Claims by the secular establishment that the AK party's ultimate plan is to introduce *sharia* law are plainly overblown. Yet such thinking lay behind the unsuccessful attempt by prosecutors to ban the AK party in 2008. Among its supposed crimes was seeking to ease restrictions on the Islamic-style headscarf in universities, which have kept thousands of pious women from pursuing their education. In fact, since it came to power in 2002, the AK government has pushed through unparalleled reforms, giving women more rights than ever. Rape inside marriage is now a criminal offence. Penalties for "honour killings" of women who mix with men to whom they are not married have been stiffened. But Ms Gulbahar, who helped craft some of these measures, complains that Mr Erdogan "turned" after being re-elected for a second term of single-party rule in 2007.

His increasingly prurient tone may have encouraged a climate that has led to the sacking of Zeynep Aksu, a psychiatrist at a social-services centre in the Black Sea province of Samsun, because she refused to stop wearing short skirts. In January a headmaster in the southern province of Mersin provoked a furore after ordering male students to remain at least 45 centimetres from their female peers. An inquiry was launched only after a parliamentarian from the opposition Republican People's Party (CHP) petitioned the government. Yet the headmaster kept his job.

Binnaz Toprak, a sociologist running for parliament on the CHP ticket, published a survey last year arguing that such incidents reflect a countrywide lurch towards intolerance. She found that in many Anatolian provinces alcohol is no longer served and pressure to fast during Ramadan is on the rise. "The picture I encountered is truly alarming," she concluded.

Yet there is another side to the story. As universities proliferate across the country, students from places like Izmir and Istanbul infect locals with their freewheeling ways. In Erzurum, an eastern backwater, girls and boys can be seen strolling hand in hand, for which they might until recently have been flogged. In Istanbul veiled girls can be spotted snogging with boyfriends on park benches. Sometimes, in short, Turkey seems to be growing simultaneously more conservative and more liberal.

A greater worry is Mr Erdogan's increasingly authoritarian bent. Turkey has more imprisoned journalists than almost any other country (there were some 57 at the last count). A pair of students who unfurled a banner saying "we want free education" during a speech by Mr Erdogan have languished in jail for over a year on charges of "membership of a terrorist group." And Mr Erdogan is increasingly fond of blasting his critics in public.

In the past week, this newspaper has been a target for daring to suggest in our June 4th issue that Turks should vote for the CHP to deny the AK party the two-thirds majority it needs unilaterally to rewrite the constitution. At successive rallies Mr Erdogan has accused *The Economist* of acting in concert with "a global gang" and taking orders from Israel. This may win him votes at home, but it will hardly add to his credibility in the West.

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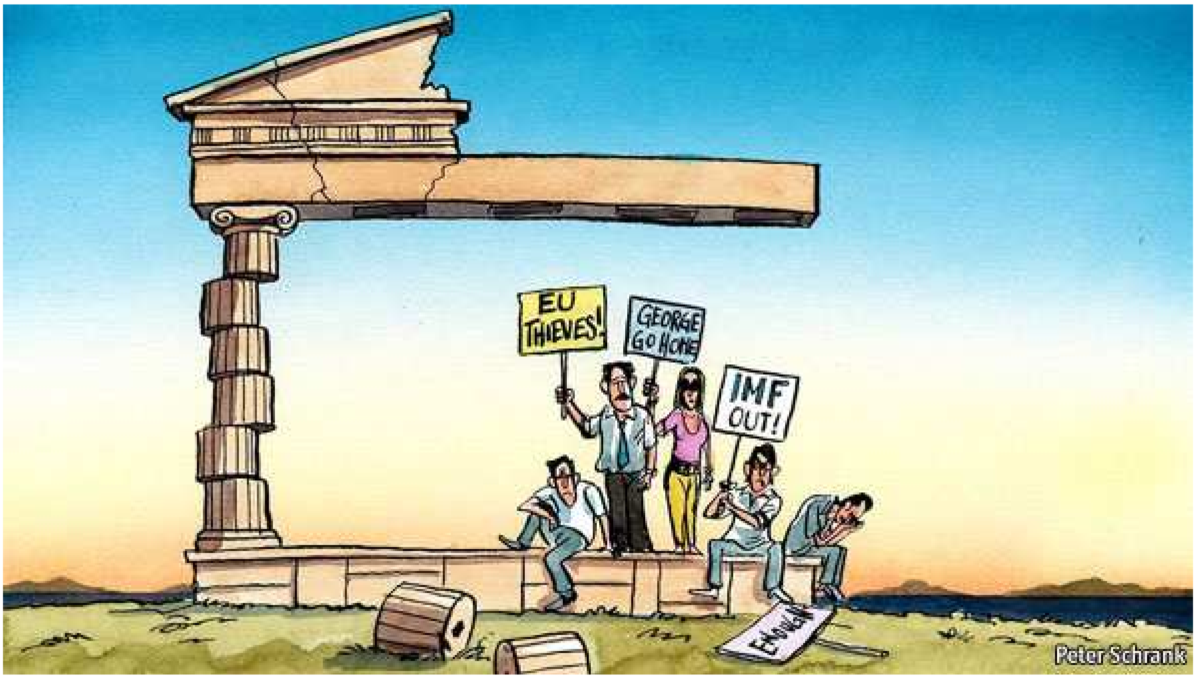
Charlemagne

It's all Greek to them

The streets of Athens are in the grip of an ugly mood



STROLL through Athens of an evening and the signs of economic distress are obvious. Shops are shut. Even cheap restaurants are half-empty. But Syntagma Square-the focal point for social gatherings, concerts, rallies and riots-is full throughout the night, not with revellers but with protesters denouncing the government's austerity and the ills of capitalism.

These days the liveried doormen in Athens's finest hotels stare out at sleeveless drummers in a protest tent camp inspired by Spain's *indignados*. Young Greeks talk of sweeping away the *kleftes* (thieves) in the parliament building above, of their anger with the European Union and the IMF or, more darkly, of revolutionary violence. The prime minister, George Papandreou, has mused about reviving the debating spirit of the ancient *agora*, but he never imagined such a revolt. One banner demands "George go home" (a reference to his birthplace in America).

Greece is teetering on the edge. It is bankrupt. Worse, the austerity measures and reforms that Mr Papandreou has pushed through are not visibly making anything better. The markets are growing more alarmed about the risk of Greece defaulting on its mountainous debt. For the second time in a year, Mr Papandreou is having to beg European leaders for billions of

euros in emergency loans. In return he promises even more belt-tightening, structural reform and the breakneck privatisation of state-owned firms and land. All this is causing fury among both creditors in Europe and party loyalists at home.

What has gone wrong: has Greece broken its promises to act responsibly, or is the reform programme crushing its economy? The latest EU/IMF assessment spreads the blame. Yes, the austerity-induced recession has been deeper than expected. Greece has yet to raise a single euro from fresh privatisations. And after a brisk start, reforms slowed. But European leaders, says the IMF, have made things worse by rattling the markets with "mixed messages" over restructuring Greek debt. The experts say Greece has been the victim of a statistical cruelty: a revision of the data showed that Greece's debt and deficit were worse than previously thought, so it has a steeper climb to recovery.

Even so, if Greece sticks to a revised programme, it should return to growth next year and enjoy a primary surplus (ie, before interest) by 2014. Greek officials point to hopeful signs: the economy grew in the first quarter, export industries are booming and, partly thanks to unrest in the Arab world, more tourists are expected this summer than last. But a closer look at the data reveals a worrying fact: despite sharp tax rises, Greece raised less money in the first four months of this year than a year ago. That is a sign, say some, that austerity is killing the economy, not curing it.

The coming weeks will be decisive. To pay its bills, Greece needs the tranche of loans due next month. They are being held up by several interconnected problems. The first is that Mr Papandreou must secure backing for a detailed reform programme. Members of his PASOK party are recalcitrant, not least because the reforms threaten the party's power-base in the unions. The opposition New Democracy (ND) party, damaged by its lies about Greece's parlous finances when it was in government, has declined calls by the EU and IMF to support "failed" reforms (though it supports privatisation). The IMF wants the EU to agree to a bail-out to tide Greece over the next three years, because it will not be able to tap the markets in 2012, as hoped. But Germany and the European Central Bank disagree over whether and how private creditors should share the pain.

In the end, a new rescue will be agreed. If there is one thing on which all Greek parties, including the anti-EU communists, agree it is that Greece must not leave the euro. Antonis Samaras, the ND leader, writes an imaginary banner with his hand: "No restructuring whatsoever. Stay in the euro at any cost." EU leaders are unlikely to let Greece go under. If their economies are too fragile to reschedule Greek debt, then they certainly cannot bear a messy default. America also wants a solution; a Greek default would be "disastrous for us," Barack Obama has said.

So the EU will, as ever, muddle through. With time, the hope is, Europe's economies and banks will strengthen; Greece may seem less dire if its economy starts to grow. Economists produce graphs showing how, even with debt peaking at about 170% of GDP, Greece could pay its way. But that needs decades of high growth, tight budgets and benign interest rates. And Greece is one of Europe's most fettered economies, where politicians have piled up debt even in good times and treated the state as a source of pillage and patronage.

The Balkan tiger within

Some economists argue that, precisely because the Greek economy is so sclerotic, it has great potential. Reform-minded Greeks see the crisis as an opportunity to set their country right. They quietly praise foreigners for turning the screws on their politicians. And they point to opinion polls showing that many Greeks favour privatisation, despite the cries that the country is being sold out. Yet releasing Greece's energy would take an uncharacteristic zeal for the free-market and administrative reform, squeezing out corruption, taking on unions and rioters, reaching lasting cross-party consensus for fiscal discipline and more. Can the Greeks be more Scandinavian and less Balkan?

Perhaps with decisive leadership. Yet even some of Mr Papandreou's backers think he lacks boldness. Many EU leaders also think Mr Samaras is irresponsible in his criticism of the EU-backed reforms. To have any chance of success, Greece needs a sense of national purpose. Time is short. Money is leaving the country. If the economy does not revive soon, the mood on Syntagma Square could turn even uglier.

Economist.com/blogs/charlemagne

Counter-terrorism and multiculturalism

Better than cure-but difficult

The government is revising its approach to dealing with Islamic extremists

LAST autumn things seemed to be going pretty well for STREET-a Muslim youth initiative based in south London, whose acronym stands for Strategy to Reach, Empower and Educate Teenagers-and its founding director, Abdul Haqq Baker. In November a fulsome letter lauding their "creative and innovative work" was sent across the Thames by the head of the Centre for Social Justice (CSJ), a think-tank that tries to improve society from a much posher location near Westminster. That was especially welcome because the CSJ is well-connected: it was set up by Iain Duncan Smith, a former Conservative leader and now work and pensions secretary.

For Mr Baker-a convert to Islam of African-Caribbean origin-that was only the last of many accolades. The Home Office and various security agencies had sent a stream of visitors from Britain and elsewhere in Europe to observe STREET's work, seen as a model for wooing away angry Muslim youngsters, including ex-convicts, from jihadism and gang violence.

Then, in December, the wind changed. Mr Baker was told that government funding under the "Prevent" programme, which is supposed to discourage potential terrorists, was being slashed after March this year. He laid off about half of his 15 staff at once; the outfit now comprises only its two directors and three volunteers.

Good riddance, say critics who think that officialdom, in its efforts to combat terrorism, has gone too far in co-operating with Muslim figures who are themselves far from liberal democrats. They argue that Mr Baker's ideological roots as a Salafi-one who takes very literally the precepts of Muhammad and his companions-makes him an unsuitable recipient of state funds. Mr Baker was also chairman from 1994 to 2009 of the Brixton mosque, where Richard Reid, later known as the "shoe bomber", rolled out his prayer rug for a while. (Mr Baker says he warned the police repeatedly about militant recruiting there.) The critics felt vindicated when STREET's website recently carried advice on clothing and music from clerics who in other contexts excoriate gays and Jews.

Mr Baker insists he deserves support: "I am a British citizen, I believe in civic responsibility," he says. "I do not believe in imposing a caliphate or sharia law on this country." As for the website material, he says it was posted without his knowledge. Society, he adds, will be the loser from STREET's demise.

The uses of extremism

Should people whose ideas are religiously extreme but not violent be enlisted in the fight against home-grown terrorism? Do they have a status that is useful in reaching those on the edge of radicalisation-or, on the contrary, does supporting them give credibility to views about separation and superiority that provide the mulch in which violent extremism often grows? The question has long been a vexed one, internally dividing the previous Labour government as it does the current Conservative/Liberal Democrat coalition.

It sprang into the headlines again this week with the long-awaited overhaul of the widely unloved Prevent strategy. Conceived in the wake of terrorist attacks in America and London in 2001 and 2005 respectively, Preventing Violent Extremism is one of four strands of counter-terrorism policy. Under this cross-government programme led by the Home Office, pound82m ($135m) was given out in the year to March 2011 to local councils, the police, voluntary organisations, overseas partners and others thought likely to deter radicalisation, mainly of young Muslims in Britain.

From now on, Theresa May, the home secretary, told Parliament on June 7th, the government and its partners will work harder to combat extremism in prisons and universities. They will ask health-care staff to keep an eye out for patients and colleagues who seem open to extremism. And they will try to get rid of radicalising materials on the internet.

But above all, the funding criteria will be tightened: the government will no longer finance people who eschew mainstream values. The test will no longer be whether applicants practise or urge violence, but whether they respect human rights, the rule of law, democracy and equal participation (by women, among others). How many outfits might be hit? "It's not a massive part of the totality but there are a number", says Mrs May. "And we're not just dealing with the past but also setting a framework for the future."

Two factors lie behind this change. The first is that the government is desperate to cut the fiscal deficit and, relatively inexpensive though it is, Prevent faces a squeeze. But there is also a broad shift in attitudes, away from what David Cameron described in a speech in Munich in February as lazy "state multiculturalism", and towards a "more active, muscular liberalism" in confronting extremist views, and defining and defending a competing national identity. Nick Clegg, the prime minister's Liberal Democrat deputy, fought back with a defence of multiculturalism in March; but the views of Mr Cameron and like-minded cabinet colleagues appear, unsurprisingly, to have prevailed.

Not everyone is sure that the government should or can separate respectable from worrisome Muslims in this bald way. Quilliam, for example, a Muslim think-tank funded by Prevent over the years, says ministerial thinking about what constitutes threatening Islamic extremism is muddled. It fails to distinguish Islamists (bent on seeking power in the name of Islam) from politically active Muslims inspired by faith; that, Quilliam says, will let Islamists hide behind the muddle.

The limits of muscle

But if this much-trumpeted change is contentious, three others should not be. Prevent funding has slopped uneasily over both community-cohesion projects and counter-terrorist ones. That has made it hard to target those most susceptible to violent extremism, and, worse, has persuaded many Muslims that community-integration work is just a cover for police snooping. This is to end, and community cohesion is to be clearly separated out.

A second improvement is that funds will be dished out according to a more or less objective assessment of risk, rather than by the number of Muslims in an area. Twenty-five districts have been identified as priorities, including the usual suspects-old mill towns in the Midlands and the North-and 16 London boroughs. The third positive change is a sharper focus on which projects are delivering results-even if the benefits of some community initiatives might take years to become apparent.

A niggling doubt remains as to whether the state should be funding any Muslim outfits to do its work: being seen to take the queen's shilling undermines many who might otherwise have played a helpful role. For Mona Siddiqui, who teaches

Islamic Studies at Glasgow University, the real problem lies within many communities, where the young lead double lives, with little sense of how to live as Muslims in a diverse culture. "No amount of money thrown at organisations or community schemes will change anything unless the commitment to rethink comes from within each individual," she says. "This is a moral crisis, not a failure of multiculturalism." And that might be a problem that even the most muscular secular liberal can ultimately do little about.

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Piccadilly Circus and globalisation

Bright lights, world city

The stories told by a dazzling London landmark

THEY are an instantly recognisable symbol of London, but, perhaps appropriately for such a global city, the advertising lights at Piccadilly Circus, first switched on in 1908, have mostly been a catwalk for foreign brands, rather than domestic ones. Now Sanyo, which has flashed its name at the site since 1978, is to make way for Hyundai, a South Korean carmaker, which will pay Land Securities, the firm that owns the electronic hoardings, around pound2m ($3.3m) a year for a central spot.

For the past century, the glittery displays have reflected shifts in international influence in business and beyond. British and European brands predominated until after the second world war: Perrier, a French drinks firm, was the first to spell its name in lights; Guinness, Bovril and Schweppes, three other beverage-makers, were also early presences. Yet the London landmark has not hosted a British company for nearly 40 years.

By the 1960s Americans were well established: Coca-Cola has been adding life to the lights since 1955; other American torchbearers have included Budweiser and McDonald's. As Asian companies began to conquer global markets in the 1970s, so Japanese businesses started to colonise the Piccadilly boards. Canon led, followed by Fuji and TDK. The South Koreans came next. The illuminations in New York's Times Square, which feature multiple American brands and also advertise shows, are comparatively parochial.

As the geographical spread has tellingly shifted, so has the mix of products on display. Disposable incomes rose, consumers became more ambitious and the cheap and easy pleasures of Player's cigarettes and Skol and Double Diamond beer gave way to the new opiates of the masses: Kodak cameras, Philips hi-fis and Panasonic colour televisions, as well as the aspirational pull of the Volkswagen Beetle and foreign air travel.

The lights have sometimes reflected momentous events, as well as commercial trends. Though overrun with American GIs, Piccadilly Circus was dark throughout the second world war, lighting up again only in 1949. The signs have since been dimmed for the funerals of Winston Churchill in 1965 and Princess Diana in 1997. With the rise of LED displays and decline of neon the lights are now brighter than ever. But they may yet need to find some greener hues in their multicoloured glory: they generate 1.9m kg of carbon dioxide a year, equivalent to the emissions of around 2,000 of Hyundai's bestselling cars. That is a lot of gas for a set of streetlights.

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Health-care reform

The climb-down

Big changes to the government's plan for the NHS

ON JUNE 7th David Cameron admitted himself to a London hospital for the second time in a month, in another bid to resuscitate his ailing health reforms. Against a background of dissent about proposed changes to the way the National Health Service is organised, he made a speech that fudged several key components of the government's plan.

It was not the only climb-down this week. The prime minister also seems to have scotched proposals from Ken Clarke, the justice secretary, which would offer reduced jail sentences in exchange for early guilty pleas for some offenders. Mr Cameron is keen to reassure his Conservative Party's right wing that he is tough on crime. But he is equally keen not to appear ferociously ideological about the NHS.

So far, three main concerns have dogged the health proposals. The first is that change is being rushed. Mr Cameron now concedes that point: he has overruled Andrew Lansley, his health secretary, in removing the deadline for family doctors to take on responsibility for commissioning secondary health-care. Originally due to be fully established in spring 2013, the new commissioning bodies will now be instigated, Mr Cameron says, only "when groups of GPs are good and ready".

Liberal Democrats in the coalition are also worried about the composition and accountability of those bodies. Hospital doctors and other health-care professionals will now have a say in their decisions. Alas, that re-creates one of the problems that the basic split between purchasers and providers of secondary care, which dates back to Tory reforms of the 1990s, was intended to address: hospital doctors will now be involved in purchasing the treatment that they provide.

Meanwhile, and perhaps most importantly, the drive towards more private provision of services and competition within the NHS-which has provoked fears about a wholesale privatisation and the end of universal coverage-seems to have been blunted. Monitor, the health watchdog, which the government had intended to make responsible for enhancing competition and choice in the NHS, will now support the "integration" of patient care. Nick Seddon of Reform, a think-tank, describes this switch as a "Napoleonic retreat."

Mr Cameron would prefer to see his tweaks as atactical regrouping. He knows that he leads a party suspected of harbouring a secret desire to dismantle the NHS. Thus he revived one of the previous Labour government's main NHS targets-Whitehall diktats about which Mr Lansley has been scathing-which stipulates a maximum 18-week wait between referral and hospital treatment.

The casualty of the retreat may be tangible improvement in the NHS itself. With efficiency savings of up to pound20 billion required over the next four years just to maintain present standards, the service urgently needs to improve its value for money. And the problem with combining a strategy of reform with one of reassurance is that governments generally find it impossible to pursue both aims at once-a lesson Tony Blair learned during his stop-start reforms. Mr Cameron's push for a health-care revamp looks like turning into a familiar NHS fudge.

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Labour and the City

Estranged, not divorced

Why some on the left, including Ed Balls, are reluctant banker-bashers

WHY isn't the Labour Party tougher on the City? It seems a bizarre question. On the face of it, Labour show the hostility to high finance that might be expected of a left-wing party led by a man sometimes dismissed as "Red Ed". Ed Miliband blames the financial crash for the recession and Britain's fiscal predicament whenever he can. On June 5th the party said it would seek to amend the government's budget, currently making its way through Parliament, so that the "one-off" tax on bankers' bonuses imposed by the previous Labour administration is renewed for another year, with the revenue going to job schemes for young people and other social-democratic goodies.

Look closer, however, and the party's attitude to banking is more complicated. Anger is leavened by memories of the City's contribution to Labour's spending splurge in office. Then there is a political calculation: Mr Miliband and his shadow chancellor, Ed Balls, who both advised Gordon Brown during his time at the Treasury, are too closely associated with the finance-led boom years to repudiate the City altogether now.

Mr Balls in particular, commonly regarded simplistically as a left-winger, is thought to be a restraining influence on those in his party who yearn to throw taxes, regulations and rhetorical bile at the banks. When, in February, the government unveiled "Project Merlin", a plan to get banks to lend to small businesses, many dismissed it as weak (and still do). Mr Balls was more muted. There was even louder criticism when a broader review of banking, led by Sir John Vickers, published moderate interim recommendations in April. Mr Balls welcomed the proposals. He has also warned that new regulation of finance must be co-ordinated internationally, lest it harm the City's competitiveness.

It is not hard to find Conservative MPs, let alone Liberal Democrats, who are more scathing about the City than Labour's shadow chancellor. His restraint is all the more remarkable given the political incentive to abandon it. The public, as well as his own party, would probably back a harsher line on the banks-no small temptations for a man as ambitious as Mr Balls.

Interestingly, Mr Balls has not been as vocal as George Osborne in arguing that the British economy should be rebalanced from finance to industry. The actual chancellor of the exchequer wants Britain to "make things again", and espouses an economic vision that some describe as Germanic, with emphases on science, apprenticeships, regional enterprise zones, high-speed rail, and fiscal conservatism ahead of supply-side tax cuts. Mr Balls, despite his faith in government, and a political power base in the manufacturing heartlands of the North and the Midlands, seems less keen on industrial strategy.

None of this is to suggest that Labour has retained all the ardour it felt for banking during the pre-crash era, when Mr Balls praised light-touch regulation and made the protection of the City's interests one of the five conditions for Britain's entry to the euro. But neither has it swung to the opposite extreme, as one might expect from a party that is generally drifting leftward. Ego plays a part: Mr Balls struggles to recant very much from his time at the Treasury, including Labour's lavish spending before the downturn. But so does cold realism. Britain is not in a position to pick and choose where its growth, and tax revenues, come from.

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Private universities

One very New College, at a price

Controversial plans for an expensive private university

AN INCONVENIENCE that the medieval founders of Oxford and Cambridge colleges probably did not have to contend with was demonstrators bearing smoke-flares in protest at the creation of their seats of learning. That has been one response to plans for a private university advanced by Anthony Grayling, a philosophy don.

Mr Grayling's New College of the Humanities is due to open in London next year. It has attracted star teaching staff including Richard Dawkins, a celebrity evolutionary biologist, and Niall Ferguson, a best-selling historian rarely off British television screens. The college-which will be only the third in the country to disavow state funding, after Buckingham University and BPP, a business specialist-is intended to address a shortfall in places for high-level humanities studies.

There is certainly a market for the idea. A growing number of well-qualified British students fail to get into their preferred choice of university, often falling short by an A-level grade or two. Extra pressure has been applied by the Office of Fair Access, the admissions regulator, which wants the best universities to admit more students from state schools. Meanwhile a funding squeeze, especially in the arts and humanities, has slashed state investment, constraining the growth of subsidised university places. Mainstream tuition fees are rising to compensate: the coalition government is raising the maximum annual fee for undergraduates to pound9,000 a year.

But the plan has attracted criticism, and not only from the usual student malcontents. To British ears (parental ones, especially), the New College's pound18,000 annual fees sounds like a lot, even if that is less than the sums charged by the best American universities. Higher education has been heavily subsidised in Britain since 1945; universities are widely regarded as social melting pots. A "toffs' college" of well-heeled Oxbridge near-misses is a provocative concept.

Terry Eagleton, a left-wing English-literature academic formerly at Oxford, has described the plan as the "odious" project of "money-grubbing dons". In response Mr Grayling says he is astounded to find himself derided as a "bastard capitalist" for raising pound10m from private investors to expand the country's supply of humanities teaching. The New College will

provide bursaries for some candidates from poorer backgrounds (the college's intake won't have access to state loans). It hopes to award degrees validated by the University of London.

Supporters of the New College admit that it will draw most of its students from a pool of privately educated pupils who risk being shut out of the best publicly funded universities. Still, Clarissa Farr, headmistress of St Paul's Girls' School in London, thinks the college can rival Oxford and Cambridge in one-on-one contact with superior tutors-though quite how much of that the students will actually get for their money is vague. Some of the stellar names on the roster have committed to only a few hours a year of lecturing and may face contractual challenges from their existing university employers.

Some other academics complain that many of the courses on offer have been copied from the curriculums of other London colleges. For all that, the private university looks like an idea whose time has finally come in Britain. Another start-up, specialising in technology and engineering and to be based outside London, is in the works. Meanwhile, New College, Oxford, which completed its founding paperwork 632 years ago, has declared itself a touch "grumpy" at the use of the name.

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English-language schools

Chattering classes

New ways and places to teach English

TIMES are tough for the hundreds of English-language colleges that cluster along the south coast of England and stud the country's university towns. Reforms to the student-visa system that are intended to help cut immigration are strangling the inflow of foreigners enrolling at them. But language entrepreneurs are finding alternative ways to meet the rising demand for tuition.

Students who visit English City (pictured), a language-teaching program, can chat to passers-by as they wander through the streets, meet their tutors' avatars in virtual cafes and order snacks from Pebbles, an aspiring actress played by a teacher.

Shiv Rajendran, who founded LanguageLab, a London-based start-up that devised English City, says business is booming, albeit from a small base. He plans a tenfold increase in his 1,000-strong enrolment within a year. Englishtown, an older and bigger website owned by EF, a Swiss company, grew by 45% last year to 500,000 paying students. Bill Fisher, the site's boss, says it aims to expand tenfold within five years. China is the biggest source of students for both.

Online language instructors are benefiting from recent changes to the immigration regime. Schools that recruit students from outside the European Union must now demonstrate their trustworthiness to the borders agency. Students can no longer obtain a general visa that covers their time at both language school and university. Half of Britain's international undergraduates have hitherto spent a pre-university year in the country learning English: Tony Millns of English UK, a lobby group, reckons that 40,000 fewer language students will come this year, leaving Britain pound600m worse off.

Another response to this squeeze among some adventurous English-language colleges has been to set up shop abroad. The London School of English has established campuses in Georgia and Qatar in recent months and is expanding elsewhere. Sussex Downs College, which runs English schools in Eastbourne and Lewes, is arranging partnerships in China. The college will train local teachers and set the exams their students take.

Still, some students who might have come to Britain will probably opt instead for a conventional course in America or Australia. And innovation among English-language teachers in Britain won't offset the impact of the visa changes on the broader economy. Colleges that are opening international offshoots will charge franchise fees, but most of the income will remain abroad. Online educators are recruiting tutors in other time zones so that classes can be taught around the clock. English is more popular than ever, but the country of its birth is ill-placed to profit.

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Bagehot

Curious George

Three former chancellors assess an unusually political successor

IS GEORGE OSBORNE too political to be chancellor of the exchequer? By tradition, British finance ministers are supposed to be above the grubbier forms of electoral calculation, sticking to the path of economic prudence-even if Gordon Brown, a deeply political chancellor, tested that tradition to near-destruction.

Mr Brown aside, Mr Osborne is an unusually political man to hold his office, both by instinct and by dint of his second role, as chief electoral strategist to David Cameron, his party leader, prime minister and close ally. Mr Osborne's supporters admit that he revels in the politics of politics: the fine calculation of tactics, the plotting of ambushes, the sniffing of breezes and the weighing of principle against expediency. Ultimately, Mr Osborne's term in office will be judged by the outcome of a single, huge political bet: his decision to try to eliminate Britain's structural deficit before the end of this parliament in 2015. The question is whether his acute political antennae will help this project.

For guidance, Bagehot turned to three former chancellors: Nigel Lawson (who held the office under Margaret Thatcher from 1983 to 1989); Norman Lamont (John Major's chancellor from 1990 to 1993); and Alistair Darling, Mr Osborne's immediate Labour predecessor. They have no quarrel with a chancellor thinking politically, it turns out. When the public is being asked to swallow strong medicine, politics cannot be divorced from economics, says Mr Darling. A plan that cannot actually be delivered is "worse than having no plan at all," he says. Lord Lawson suggests that political self-interest should keep Mr Osborne from short-term concessions that damage the economy. After all, a recovery that is entrenched by 2015 is his overwhelming goal.

Strikingly, Mr Darling offers Mr Osborne support against those on the left demanding that the government unveil an alternative fiscal plan now, in case the economic weather worsens. Mr Darling accuses the current chancellor of cutting spending too deeply and fast (in office Mr Darling proposed halving the budget deficit by 2015, a strategy he still defends). But those calling for Mr Osborne to unveil a Plan B now are defying common sense, says Mr Darling: "If you announce a plan but also say you have a stand-by plan, you might as well throw your first plan away."

The guild of ex-chancellors is squeamish of overly naked politicking. Lord Lawson recalls how he delayed his big tax-cutting budget until after the 1987 election to avoid what would have looked like "a pre-election bribe"-though he also admits he felt there was "electoral mileage" in giving voters something to look forward to after the election. Mr Darling chides a previous Tory chancellor, Ken Clarke, for failing to raise interest rates before the 1997 election in defiance of prevailing economic wisdom.

Lord Lamont says Mr Osborne is in an unusual position of strength. When chancellors are accused of being "non-political", says Lord Lamont, it usually means they have said "no" to colleagues itching to spend money. Surrounded by spending ministers, chancellors are in a minority in the cabinet. That means they can be effective only with the full support of Number 10: "Only the prime minister can protect them from the majority."

The temptations of popularity

Mr Osborne starts with strengths all three of his predecessors must envy. His cabinet colleagues know his iron grip over their budgets is part of the government's defining political strategy. He is also close to his prime minister. Insiders say Mr Osborne and Mr Cameron are bound by a pact of loyalty and friendship that no sensible minister would try to prise apart. This is based in part on Mr Osborne's understanding that Mr Cameron is an electoral asset in a way that he is not. During the 2010 election, when Mr Cameron dominated Tory advertising, a colleague asked Mr Osborne if his face might feature on campaign posters. "Not Conservative ones," he replied dryly.

To date, Mr Osborne has used his political skills to good effect. The Conservative-Liberal Democrat coalition has successfully persuaded a broad swathe of public opinion that the previous Labour government left the country in a financial mess that must be fixed-and that is principally his achievement. Given the pain that voters will endure, says an ally, getting the politics of austerity right is "central to getting the policy through".

The chancellor has been helped by the Labour opposition's muddle over the deficit. Labour says Mr Osborne is a dangerous ideologue, cutting public spending too deeply and ignoring warning signs of an economic slump in stubborn pursuit of what it says is his real goal, a smaller state. Time for an alternative, Labour declared on June 6th, brushing aside a report from the International Monetary Fund that urged Mr Osborne to stick to his cuts. But Labour's front bench cannot

agree whether to apologise for giddy levels of spending before the credit crunch, or to boast about them, sapping the party's credibility.

For all that, some thoughtful Conservatives worry. They note that many of the most sensitive cuts are not due to bite until much closer to the next election. One senior figure predicts that Mr Osborne will struggle to meet his borrowing targets, amid what may well be sluggish global growth. He wonders whether future plans to slash defence spending or to axe child-benefit payments for more affluent families will be carried out, as polling day nears. "The temptation to be political will be great. And George Osborne is very political," he says.

Mr Osborne's political skills explain the strong position in which he finds himself. From now on, they risk leading him astray. In the words of one ex-chancellor, the office brings the burden of "having to see things as they really are". Mr Osborne should embrace that burden. Long after his finest political wheezes are forgotten, it is as a chancellor that he will be judged.

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IBM v Carnegie Corporation

The centenarians square up

Both IBM and the Carnegie Corporation will turn 100 this month. Has the multinational business or universal philanthropy done more for society?

"ONE simple way to assess the impact of any organisation is to answer the question: how is the world different because it existed?" That is the test set out by Sam Palmisano in the foreword to a new book celebrating the 100th birthday of IBM, the firm he has run since 2002. But another organisation is also turning 100 this month-the Carnegie Corporation of New York, a flagship of American philanthropy. Mr Palmisano's insight is too good to limit to only one of the centenarians. A better question is: which has done more for the world, one of its leading companies or one of its most influential charities?

At first glance, IBM and the Carnegie Corporation seem to be engaged in such different endeavours that comparing them might seem about as sensible as comparing apple orchards and orange groves. Making money has always been the main aim of the company formed in 1911 by the merger of three small producers of mechanical accounting machines, scales and time recorders, and renamed International Business Machines 13 years later. By contrast, the Carnegie Corporation explicitly set out to create a better world by giving away what remained of the great fortune of its industrialist founder, Andrew Carnegie. Yet both can assert that they have made the world a better place during the past century, and it is far from obvious which claim is stronger.

The answer matters, and not just in order to award the historical bragging rights. Comparing the records of those giants of 20th-century American capitalism-or "philanthrocapitalism"-can shed light on a question that is keenly debated today: whether philanthropy or business is more effective at "Making the World Work Better", to borrow the title of the book celebrating IBM's centenary.

The comparison can also help answer an old question about the proper role of business in society. Many people would agree with Milton Friedman's view that the "only social responsibility of business" is to "increase its profits". But Michael Porter, a management guru, recently caused a stir by arguing that firms should seek instead to create "shared value" that simultaneously benefits both the firm and society. Andrew Carnegie would have shared Friedman's view of business, saving the philanthropy until after the money has been made. IBM, at least after Thomas Watson senior took charge in 1914, has arguably been a case study in how to create shared value, both through its formalised giving, which is among the most generous in corporate America, but more fundamentally through its everyday business.

And the comparison can shed light on the role of the wealthy in society. Bill Gates, the Andrew Carnegie of today, is busily giving away the fortune he earned in business-a fact that has irked some prominent critics. A few years ago, Robert Barro, an economist, argued in the *Wall Street Journal* that by switching from making money to giving it away, Mr Gates had failed to appreciate both the good he had done at Microsoft and the waste that he was about to preside over as a philanthropist. "By any reasonable calculation, Microsoft has been a boon for society and the value of its software greatly exceeds the likely value of Mr Gates's philanthropic efforts," concluded Mr Barro.

Yet Mr Gates and his partner in philanthropy, Warren Buffett, are not only confident they can improve the world by giving away their money through a charitable foundation much like the Carnegie Corporation (only bigger). They are also trying to persuade other billionaires in America and abroad to pledge publicly to give away at least half of their wealth during their lifetimes.

Present at the creation

However much their paths diverged, IBM and the Carnegie Corporation were both born at a critical point in the evolution of America's capitalist democracy. Carnegie had built his fortune during an unprecedented period of large-scale industrialisation, the social costs of which were clear by 1911. The legitimacy of the wave of new big businesses and of the wealthy men who created them was increasingly questioned, as trustbusters challenged "robber barons" such as Carnegie and John D. Rockefeller (who created his charitable foundation in 1913).

At the same time, there was growing excitement about the capacity of expert knowledge to transform not just business but society, too. Carnegie and Rockefeller reflected this in calling their thoughtful, long-term approach to giving "scientific philanthropy" (today's donors call it "strategic philanthropy"), which they contrasted with the short-term wastefulness of much of the charity of the time.

In a way, therefore, IBM and the Carnegie Corporation had similar missions. The Carnegie Corporation's explicit goal was to "promote the advancement and diffusion of knowledge and understanding". Thomas Watson senior, who ran IBM for over 40 years, made "Think" its motto and built the business around "the idea that information was going to be the big thing in the 20th century", according to Richard Tedlow, author of "The Watson Dynasty". He established a research arm in 1917, which went on to generate world-class, blue-sky research as well as more patents than any other corporate laboratory.

By 1911 Carnegie was near the end of his career, whereas Watson's was only starting. But both men were fired by idealism to such an extent that their peers thought them strange. To some wealthy Americans, Carnegie's 1889 essay, "The Gospel of Wealth", with its assertion that the "man who dies thus rich dies disgraced", smacked of socialism. (Ironically, founding the Carnegie Corporation was an implicit admission that Carnegie would indeed fail to give away all his fortune before his death, and thus need an institution to continue his philanthropic work.) Watson senior "struck his contemporaries as a nut and a crank with his policy that 'People who perform are my partners'," according to the late management guru, Peter Drucker.

Idealism was sharpened by feelings of guilt over earlier ethical lapses. Carnegie regretted the brutal breaking of a strike by his workers at Homestead in 1892, which cost ten lives. Watson was chastened by his conviction for antitrust offences at his previous firm, NCR-though the conviction was later overturned.

Both men brought about huge change by building institutions that became role models. The initial endowment of the Carnegie Corporation, at $125m ($3 billion in today's money), exceeded the total value of all American foundations at the time. Over the following 20 years, spanning America's first golden age of philanthropy, rich donors endowed around 250 new foundations with combined assets of $32 billion in today's money, according to *Philanthropy Magazine*. Many of them tried to imitate the scientific philanthropy of the Carnegie and Rockefeller foundations. At IBM, Watson introduced employment practices that became the norm in big business decades later. In 1915 he gave a speech known as "the Man Proposition" declaring all employees equal. That was later expanded to include women, who from 1935 received equal pay for equal work. From 1945, all IBM workers received pensions.

Still, in the first 50 years, the impact of the Carnegie Corporation on society dwarfed that of IBM. When it was created, the corporation's power in some respects equalled or exceeded that of the state. One of Carnegie's goals was to keep things that way, by building a model of society that differed from what he saw as dreadful, big-government socialism that was taking over in Europe. He succeeded only up to a point: the Carnegie Corporation's initial endowment was 27 times bigger than the annual federal government education budget; the much larger endowment of the Bill & Melinda Gates Foundation is about double the annual education budget of New York City.

With its benefactor as its head for the first eight years, the Carnegie Corporation operated largely as a treasury and headquarters for a host of other institutions and philanthropic initiatives that he had started earlier-including his most famous programme, which ended up building some 2,509 libraries, most in America.

After Carnegie's death in 1919 the foundation continued his strategy. It seeded or supported a broad range of strong private institutions, many of which carry his name. Institutions that benefited from his money range from the Carnegie Institute of Technology (now part of Carnegie-Mellon university) and the Brookings Institution to the National Academy of Sciences and the pension fund for university teachers now known as TIAA-Cref. The foundation and sister organisations commissioned research that would help shape entire professions. The Flexner Report of 1910 led to the overhaul of medical education, inspiring similar efforts focused on the law and on teaching.

The Carnegie Corporation also paid for two reports that fundamentally changed America's conception of itself. The first, in 1944, was "An American Dilemma: The Negro Problem and Modern Democracy", by Gunnar Myrdal, a Swedish economist. It showed that African-Americans were being held back by widespread and institutionalised white racism. The second, published in 1959, was "The American High School Today", by James Conant. It played a big part in establishing the idea that large schools are the best way to give students a comprehensive education. John Gardner, president of the Carnegie Corporation from 1955, was also important in developing the Elementary and Secondary Education act of 1965, which provided the first large slug of federal funding for public schools. Carnegie money also financed the discovery of insulin, sparing millions of people with diabetes from an early death.

Even Carnegie's failures say something about the scope of his ambition. The philanthropist built a Peace Palace in The Hague, and funded the Carnegie Endowment for International Peace. That he could not prevent the first world war plunged the septuagenarian steel tycoon into a depression. Still, whether or not the Carnegie Corporation really kept socialism out of America, it is easy to imagine that by the middle of the 20th century, the country would have been a different-and probably worse-place without it.

Big-hearted Blue

Not until its second quarter-century did IBM count for much. But by its 50th birthday IBM was one of America's leading firms, earning profits of $254m on revenues of $2.2 billion and employing 116,000 people. Those jobs, as well as profits are in themselves a measure of IBM's achievement. Because firms sell something that people want, they make the world a better place in ways charities do not. In particular, companies create what is known as "consumer surplus"-the difference between the market price and what a consumer would be willing to pay. This surplus benefits society, not shareholders.

As well as making an important commercial entry into the public arena, by providing the backbone of a new social-security system introduced by Franklin Delano Roosevelt in 1935, IBM also spent a lot of money on research. By 1935 it

employed 300 engineers and, Watson reckoned, some 95% of its profits were generated by innovations introduced since 1917. This effort soon expanded through partnerships with universities and embraced pure research as well as the more applied, commercially driven sort. At one extreme, for instance, the benefits to society include the bar code, IBM's version of which became the standard. The firm also took part in such crucial national initiatives as America's space programme (a newly installed IBM system helped save the stricken *Apollo 13*). And at the other extreme it also helped form the minds of such future Nobel laureates as BenoÃ®t Mandelbrot, the pioneer of fractal geometry, and Gerd Binnig and Heinrich Rohrer, inventors of the scanning tunnelling microscope which let scientists see individual atoms.

IBM, like Carnegie, also did its bit for civil rights. In 1953 Thomas Watson junior, a similarly idealistic soon-to-be successor to his father, threatened to cancel plans for plants in Kentucky and North Carolina if they could not be fully racially integrated. After a stand-off, the state governors backed down, and the plants opened three years later.

A game of two halves

Still, not all of their contributions in their first 50 years were positive. Watson senior, as public as Carnegie in his enthusiasm for world peace, believed that this cause was best advanced through trade between nations, including Nazi Germany. In 1937 Hitler personally convinced him he did not want war. As soon as Germany invaded France in 1940 Watson realised his mistake, and tried to distance IBM from the Nazis, but the company's German subsidiary provided a machine that was used in the Dachau concentration camp. (Lesson learned, IBM was among the first international companies to pull out of South Africa in the late 1970s in protest against apartheid.) The Carnegie name was also linked indirectly with the Nazis, through the Carnegie Institution's funding of research into eugenics in the early 20th century that was later taken up by Germany.

In their second 50 years the two institutions' impact has arguably been reversed. Carnegie had a couple of triumphs in the 1960s, helping the launch of public broadcasting in America and the creation (for educational reasons) of "Sesame Street", the most popular children's television show ever. But since then, Carnegie has seen its influence decline. Among other things, it has suffered from philosophical self-doubt (a report it commissioned in the 1970s in effect urged America to embrace European-style socialism) and the emergence of newer, bigger philanthropies (by assets, it now barely scrapes into America's top 20 foundations). Although Carnegie still does important work, such as its efforts to understand Islam, championed by Vartan Gregorian, its current president, the corporation is showing its age.

IBM, by contrast, is now as influential as it has ever been, with a stockmarket value of around $200 billion and nearly 427,000 employees, many of them in the developing world. It has sponsored-and ultimately benefited from-a continuous series of innovations, from the mainframe to the personal computer, services and cloud computing. Its corporate philanthropy has grown steadily, so that its annual grants now exceed those of the Carnegie Corporation. It has also tackled policy challenges in a head-on, Carnegie-esque way. In 1996 it became the first company to convene a summit meeting on American education. Out of that came a commitment to find ways to measure school performance, which IBM helped to develop.

Judged on the past 50 years, there is a strong case for saying IBM has had more impact than Carnegie-especially if you count its accidental contribution to philanthropy by incompetently failing to stop Mr Gates from creating Microsoft. In part this is because its business, the management of information, has unusually large social benefits, and causes relatively few social or environmental costs.

In future, IBM expects to play an even greater role in profitably solving social problems by working with governments. "Everybody says they're unsolvable-safe borders, clean water, energy. But the application of technology can solve a lot of these things we wrestle with," points out Mr Palmisano. Firms in other, dirtier industries may not compare against philanthropy so well.

IBM has also been unusual in keeping up its significant investment in relatively pure research, which can have large social benefits. They were seen most recently in the development of Watson, a computer capable of beating human champions at the game "Jeopardy!" just as its Deep Blue computer earlier saw off several human chess grandmasters. In this respect, IBM may be a model for Mr Porter's idea of shared value. But is its approach replicable or is it just an exception? AT&T's Bell Labs and Xerox PARC have left their glorious histories behind them, yet somehow IBM's research culture has

survived. What differentiated IBM seems to have been a decision in the late 1970s to create a series of joint projects between product developers and IBM researchers.

Why, by contrast, has the Carnegie Corporation seen its influence decline? There are many possible explanations. While it has stayed the same during the past 50 years, governments and private companies have grown far bigger. Alan Pifer, the foundation's president after Gardner, has likened traditional foundations such as his to the dodo, saying that they now need to develop "slim bodies and well-developed wings". This meant focusing on "critical points of leverage", where a foundation's grants could have a disproportionately large effect by influencing the money and power of other institutions, not least government. Today's leading philanthropists, from Bill Gates down, also talk the language of leverage-but there are grounds to think they are doing better at it than the Carnegie Corporation is.

Another reason for Carnegie's relative decline may be that 100 years is too old for a philanthropic foundation. The absence of an existential threat may have made it too comfortable. IBM transformed itself under Lou Gerstner when it nearly ran out of cash in the early 1990s, and again more recently under Mr Palmisano when Indian rivals threatened to steal its business. By contrast, it is not clear what, if anything, keeps the people in charge of the Carnegie Corporation awake at night. The passage of time saps a foundation of the unique energy of its founder. Carnegie said of the unknown future leaders of his foundation that "they shall best conform to my wishes by using their own judgment." That much they have done, but he would probably have fared better.

No wonder many of today's philanthropists aim, as Carnegie did, to give away all their money by the time they die, or at least put a time limit on the lifespan of their foundation after their death. The Gates Foundation will have to be wound down 50 years after the second of Bill and Melinda Gates dies.

The achievements of IBM and the Carnegie Corporation are impossible to quantify mathematically. What seems clear, though, is that as it enters its second century, IBM can plausibly hope that its best years lie ahead. Alas, that seems most unlikely for Carnegie.

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Oh for a new risorgimento

Italy needs to stop blaming the dead for its troubles and get on with life, says John Prideaux

ON A WARM spring morning in Treviso, a town in Italy's north-east, several hundred people have gathered in the main square, in the shadow of a 13th-century bell tower, to listen to speeches. The crowd is so uniformly dressed, in casually smart clothes and expensive sunglasses, that an outsider might assume invitations to this event had been sent out weeks ago. Most people are clutching plastic flags on white sticks. Some of them carry children wearing rosettes in red, white and green. On a temporary stage a succession of speakers talk about the country's glorious history. Italy has taken the day off to celebrate its 150th anniversary as a nation.

Treviso's mayor, Gian Paolo Gobbo, is not celebrating. The desk in his office faces a large painting of Venice in the style of Canaletto. This has some significance for Mr Gobbo, who has spent his political career fighting to resuscitate the Republic of Venice, which finally expired in 1797 after a long illness. Below the painting stands a fluorescent-green bear. "It's just like me!" exclaims the mayor, a portly man in his 60s. Green is the colour of the Northern League, a party which has sometimes toyed with the idea of breaking up Italy and allowing the northern part of the country to go it alone. This particular bear wears a sword, a gift from a champion fencer who is one of the town's famous sons. Mr Gobbo's opponents might claim that the bear resembles him in another way: last year the mayor was charged with having been part of an armed gang in the 1990s, a low-grade militia intended to protect Treviso. He denies the charges.

Italy's unification is contentious because many people trace the country's current troubles back to the birth of a nation that, they say, was misconceived. In the run-up to the anniversary an effigy of Giuseppe Garibaldi, the great hero of unification (pictured above), a sort of 19th-century Che Guevara but with better politics, was burned in the Veneto region. The Northern League, which governs in coalition with Silvio Berlusconi's People of Freedom party in Rome, objected to having a public holiday dedicated to an event that it regards as a catastrophe. Unification, the party argues, yoked the poor, corrupt, lazy south to the go-ahead north to the detriment of both. Garibaldi did not unite Italy, the Northern League is fond of saying; he divided Africa.

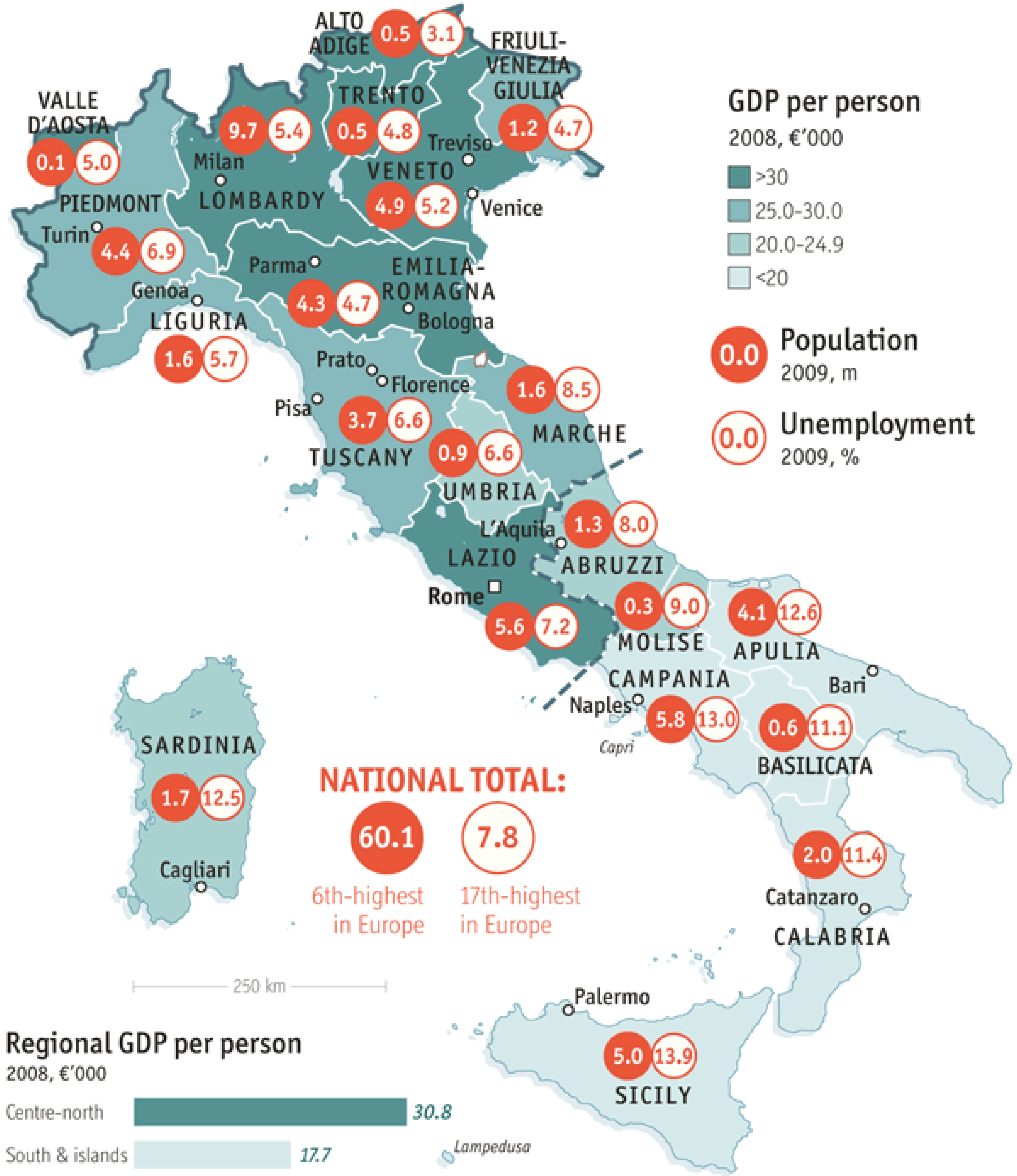
In brief

Key figures

GDP 2010: €1.5 trn
Per person, 2010: €25,600
Average annual % change, 2001-10: 0.25%

Government spending
As share of GDP, 2010: 50.5%

Exchange rates, May 30th 2011
1€ = $1.43 ¥115 £0.87

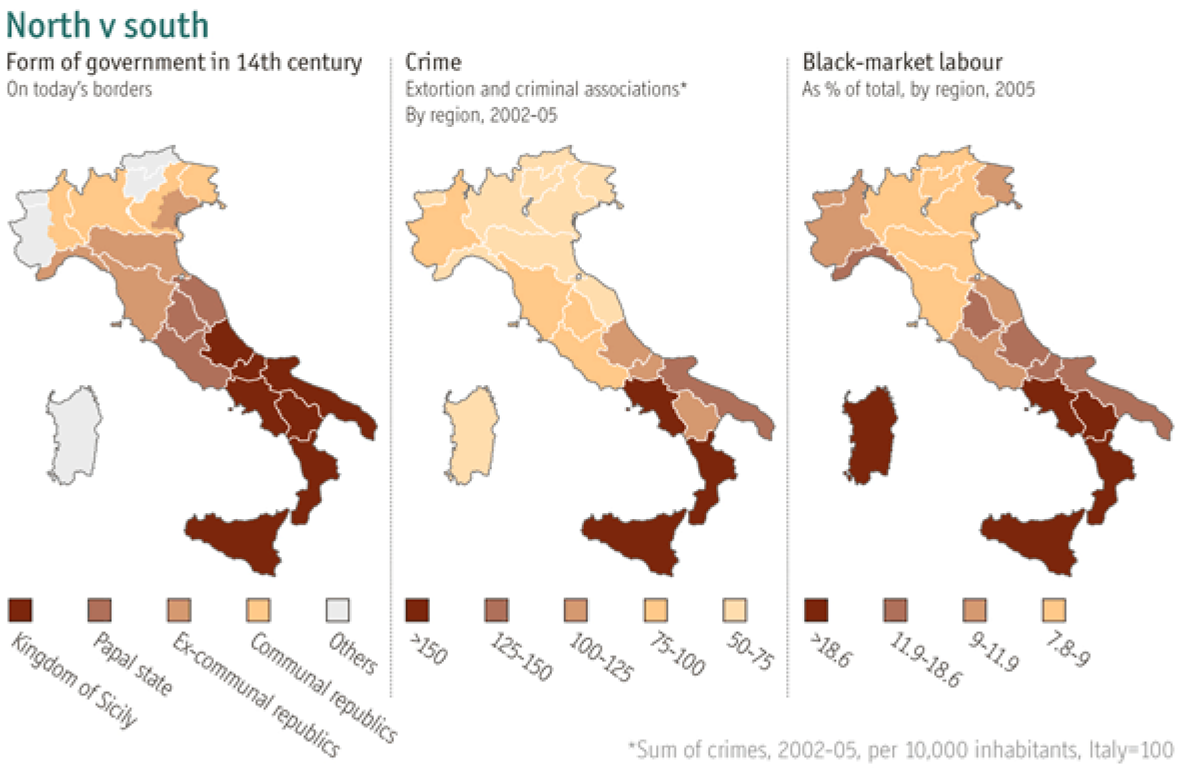


From the other end of the peninsula the anniversary can look equally bleak. In the 18th century Naples was the third-largest city in Europe after London and Paris. Before being incorporated into Italy it was the capital city of a great monarchy; now it is ruled by a clique of inept politicians. These days the city is almost as famous for its stinking mounds of uncollected rubbish as for the bay and the volcano that delighted Goethe and many other visitors before and since. Though the south of Italy benefits from transfers from central government, it does not show much gratitude towards the wealthier northerners, nor enthusiasm for commemorating unification. "Terroni", a bestselling book by Pino Aprile published last year, compared the northern troops who supposedly liberated the south in the 1860s to the Nazis.

All countries argue about their history. America's recent commemoration of the 150th anniversary of its civil war saw plenty of conflict between nostalgics for the old South, with all its carbuncles, and fans of Abraham Lincoln. But it is hard

to find anybody in America who thinks that the states should never have been united. Italy is different. Plenty of people feel that the regions making up the country were too distinct to be squeezed into a single nation and that, as a result, Italy has shallow roots. According to this line of thinking, the lack of consent to the national project has resulted in weak institutions and dysfunctional government. Manlio Graziano's "The Failure of Italian Nationhood" and David Gilmour's "The Pursuit of Italy", the two most serious attempts to grapple with Italy's first 150 years, both take this view. In political terms, the rise and rise of the separatist Northern League over the past 15 years, to a point where it now occupies key ministries in Rome, underlines the power of this idea.

One reason why the past seems to have an unusually strong hold over the present in Italy is that the country's long-term problems seem impervious to changes of party, government or constitution. The most striking of these is the north-south divide. Most countries have richer regions and poorer ones. What is unusual about Italy is the south's failure in recent years to catch up with the north in any way at all. Data from the Bank of Italy show that GDP per person is over 40% lower in the south than in the centre and north, and has been for the past 30 years (though there was some catching up before then). A third of Italy's population lives in the south, making it "the largest and most populated underdeveloped region in the euro area", according to Mario Draghi, the bank's governor.

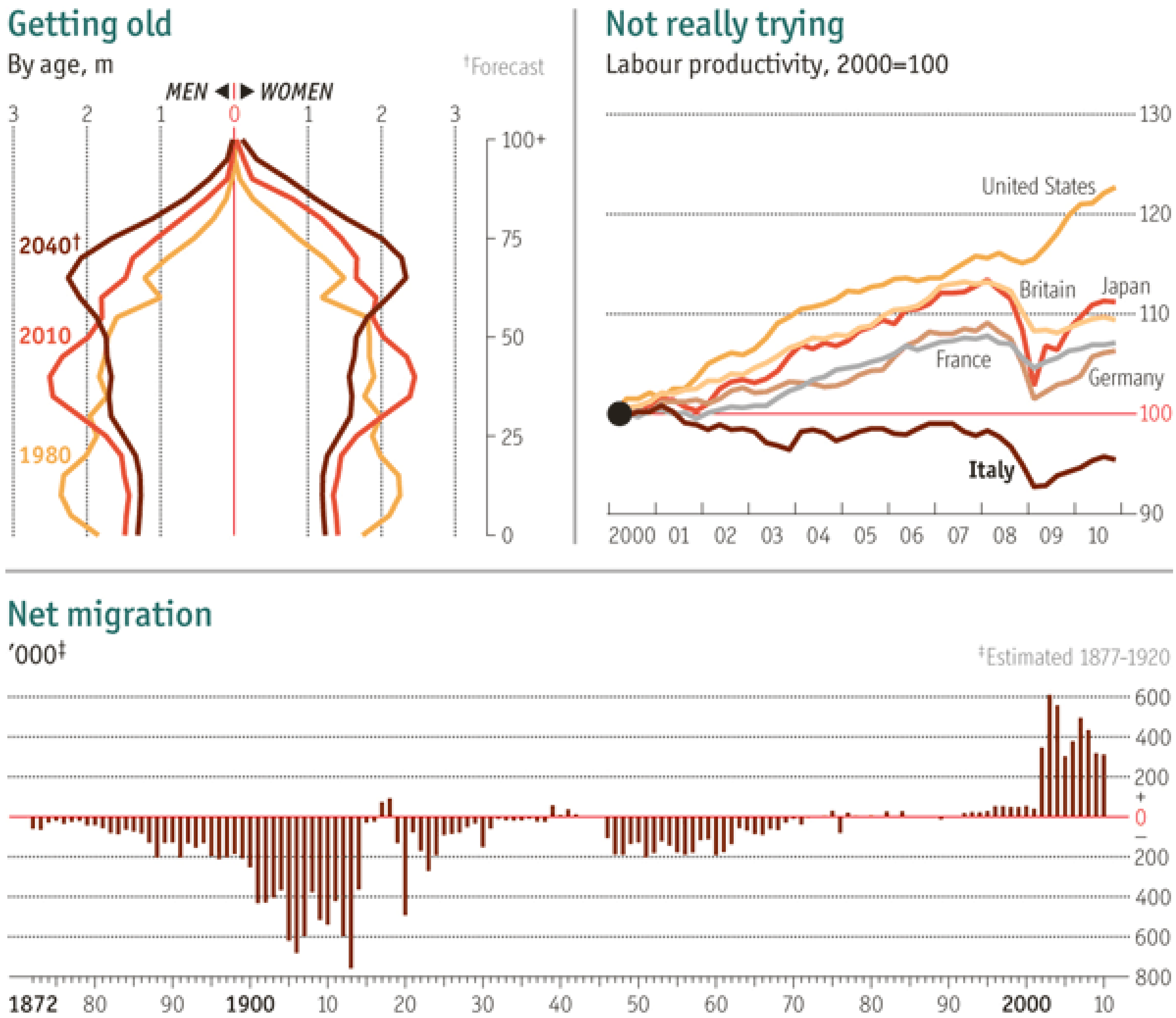


The wonders of commune-ism

If this problem were only 30 years old it might be easier to fix, but the gap between the north and centre of the country and the south goes back much longer. If you know how any place in Italy was governed in the 14th century-as a self-governing commune, as part of the Papal states or by a monarchy in the south-you can predict with reasonable certainty what proportion of people there would come out to vote in a referendum tomorrow or donate blood. That is an awful lot of history to push against. And if you plot indicators of a successful society-from the ease of doing business to turnout in elections to educational attainment-on a map of Italy's boot today, you get the same differentiation between north and south.

What has caused this strange predictability? Since the publication of Robert Putnam's book "Making Democracy Work" in 1993, the main explanation put forward has been that the self-governing communes and city states that sprang up in the north of the country during the late Middle Ages built up reserves of social capital (or trust in fellow citizens) that have proved remarkably enduring. The south of the country, ruled by a monarchy and characterised by large landholdings worked by peasants, lacked this crucial resource. Three economists who studied this subject recently, Luigi Guiso of the European University Institute, Paola Sapienza of Northwestern University and Luigi Zingales of the University of

Chicago, found that at least half of the gap in social capital between the north and south is due to the absence of free city-states in the south.



This argument quickly becomes defeatist. If Italy's problems really date back to the political vacuum created by the collapse of the Roman Empire and the emergence of the three main types of government, then perhaps it is time to give up and sip Campari with orange on the Amalfi coast instead. Fortunately Italy's complex history can explain only so much.

Infographic sources:
Bank of Italy; OECD; UN; "International Historical Statistics" by Brian Mitchell; national statistics; *The Economist*; Thomson Reuters; Calderoni, Global Crime 2011

To begin with, the monarchy supposedly responsible for the south's current troubles was not unlike the governments that for centuries ruled France, Spain, Britain and what was to become Germany. It is not obvious that these countries were held back. True, Italy was created by a small elite at a time when more than 90% of the peninsula's inhabitants did not speak Italian. But inventing nations, along with spurious myths and traditions to anchor them, was a popular recreation among educated Europeans in the 19th century. Some managed it more successfully than others, but Italy's experience was not atypical. Indeed, nations are constantly making and unmaking themselves. Metternich, the 19th-century Austrian statesman who famously slighted Italy as a "mere geographical expression", was ambassador of a country that became an empire and then splintered into many pieces within 60 years of his death. And in the 20th century many European countries suffered horrors that make Italy's supposedly pernicious historical inheritance seem mild. It can even be argued that Italy's current lack of national pride is the mark of a civilised place. Earlier outbreaks of jingoistic nationalism led to ill-starred adventures in Abyssinia and the second world war; to mourn its absence seems perverse.

This special report will argue that the cause of Italy's present unease is much more recent. Between 2000 and 2010 Italy's average growth, measured by GDP at constant prices, was just 0.25% a year. Of all the countries in the world, only Haiti and Zimbabwe did worse. Many things contribute to these gloomy figures. Italy has become a place that is ill at ease in the world, scared of globalisation and immigration. It has chosen a set of policies that discriminate heavily in favour of the old and against the young. Combined with an aversion to meritocracy, this is driving large numbers of talented young Italians abroad. In addition, Italy has failed to renew its institutions and suffers from debilitating conflicts of interest in the judiciary, politics, the media and business. These are problems that concern the nation as a whole, not one province or another. They have not been helped by Mr Berlusconi's incumbency in the Palazzo Chigi, the prime minister's official residence (which, in a characteristic confusion of public duty and private pleasure, he tends to avoid in favour of his own residence nearby, one of many). It is time for Italy to stop blaming the dead for its difficulties, to wake up and have a shot of that delectable coffee it makes.

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The economy

For ever espresso

Why Italy is not growing

TWO YEARS AGO yields on sovereign debt issued by countries in the euro zone suddenly became interesting for people other than bond traders. As spreads on Irish, Portuguese and Greek treasuries over German bunds soared, handing those countries a choice between sovereign default and accepting a bail-out, Italy seemed next in line. Its gross debt-to-GDP ratio reached 119% in 2010, and its poor economic performance suggested it might find it hard to pay all those bondholders back.

But it had built up enough credibility to get away with it. From 1992 until the crisis hit, the government had run a primary budget surplus (before taking debt servicing into account), and Italy's public finances deteriorated less than those of most other euro-zone countries, thanks to big reductions in the budget deficit. Eventually Ireland swapped places with Italy to provide the vowel in the unflattering acronym originally drawn up for Portugal, Italy, Greece and Spain. No Italian banks went bust, and rather than having to prostrate itself before the IMF or the EU, Italy became one of the biggest contributors to rescue funds for troubled European economies. All of which, says the Italian government, demonstrates the robustness of its economic model.

This picture is a little too comforting. "It is a bit like saying that in a storm you are better off in a big heavy flat-bottomed boat, like a barge, than in a racing yacht," says Bill Emmott, a former editor of this newspaper and author of "Forza, Italia: Come Ripartire Dopo Berlusconi" ("Courage, Italy: How to Start Again After Berlusconi"; currently available only in Italian). "This still doesn't make you win races when there isn't a storm, which thankfully is the normal economic weather." Italy did indeed avoid disaster during the recent storm. But its economy also continued along the path of underperformance that it has trodden for the past few decades. In 2008, the year of Lehman Brothers' failure, Italy's growth rate fell farther and faster than the euro-zone average. In 2010, when the euro zone began to recover, Italy grew more slowly. "In bad times we usually avoid collapse," says Domenico Siniscalco, a former finance minister who now works for Morgan Stanley. "Unfortunately in good times we do not grow."

A rosy view of Italy's economy relies on two assumptions that are only half right. The first of these is that Italy is an export-led economy like Germany. There are indeed lots of successful Italian exporters. Some of them have famous names such as Benetton, Prada and Ferrari. Others are less well known even if, like Luxottica, they make products that sit on many people's noses, such as Ray-Ban and Oakley sunglasses. Yet that does not make Italy a champion exporter. Unlike Germany, it has run a current-account deficit every year since 1999 and a trade deficit since 2005. Italy may still have the world's sixth-largest industrial base, but Britain, often portrayed as an industrial weakling, makes and exports more cars than Italy does.

The second assumption is that a high level of domestic savings, which tend to be conservatively invested in government debt or simply parked in bank accounts, insulates the economy from trouble. Italy is sometimes thought of as an outlier within the euro zone-a kind of European Japan-where only a small part of the public debt is in the hands of jumpy foreigners. In fact the IMF reckons that 47% of Italian government debt is currently held abroad-less than in most European countries but hardly negligible. The figure for Japan is 6.9%.

A better argument for Italy's robustness is that its public debt is so vast that investors cannot afford to abandon it: Italian treasuries make up the third-biggest bond market in the world. For investors who want exposure to bonds denominated in euros there are not enough other places to go. This apparent strength comes with its own hazards, however, namely

vulnerability to a sustained rise in interest rates. Each percentage-point rise in interest rates costs Italy an additional 1% of GDP in debt servicing, a scary prospect for a country that does not grow.

An economy in a small cup of coffee

Italy's lack of growth over the past 20 years-a period that until recently has been notably benign-has been its most persistent economic failing. Put simply, Italian firms have a problem with productivity and competitiveness. To understand this better, picture the Italian economy as a cafe, one of those places selling cappuccinos, espressos, sandwiches and freshly squeezed orange juice that are a cornerstone of contemporary Italian civilisation. Many Italians believe their economy to be powered by manufacturing and industry. But since 70% of the labour force actually works in the service sector, this cafe is more representative of Italy's economy than firms like Fiat or Zanussi.

The making and drinking of delicious coffee took a leap forward in the period after the second world war when Italy rebuilt itself. Through the 1950s and 1960s Italy grew like a developing country rather than a rich-world one. Among countries now considered developed, only Japan and South Korea performed better. Growth just shy of 10% a year became the norm.

One reason for this startling pace was the application of new technologies to the workplace-something that was as noticeable in cafes as in the factories of Milan and Turin. Before the war espressos had often been ruined by machines that squirted steam through the ground coffee, burning it on the way and producing a dark, bitter liquid. In the late 1940s a company founded by Achille Gaggia produced an espresso-maker that used a lever to force boiling water through the coffee at high pressure. The result was a shot of coffee with a sweet, tan-coloured froth on top that came out perfect every time. There were many thousands of such innovations, and they made Italy hum.

A second source of growth was large-scale internal migration, mainly from south to north. This increased the productive labour force, since many people moved from something close to subsistence agriculture into making things that others wanted to buy. Statistics on this are hard to come by, but the best guess is that between 1955 and 1971 some 9m Italians migrated within their own country. Though many of them put up with great hardship to establish a toehold in this new Italy, eventually they earned enough to join a new consumer society.

Fast-forward 40 years and our cafe with its zinc bar top, food laid out under glass and white paper napkins is looking distinctly tired. The basic formula may not be so different from a Starbucks or one of its imitators, but customers usually have to wait twice: once to buy a ticket and then again to order a coffee-a system that has long been out of favour in most rich countries.

The inputs and outputs of the cafe business have hardly changed, and the productivity gains of the post-war period are now a distant memory. Between 2001 and 2005 labour productivity grew at a measly 0.1% a year, and between 2006 and 2009 it shrank by 0.8% a year. Official statisticians think that the reality may have been slightly better than these numbers suggest, but not so much as to alter the overall picture significantly. The drinks for sale are substantially the same as they have been for half a century (no frappuccinos here). And the staff, who have worked in this cafe for decades, are getting on a bit. Italy has aged faster than most other rich countries. Current projections suggest that by 2030 there will be only about two Italians aged 20-64 for every pensioner.

Like many businesses still owned by the founder, this cafe has never expanded: about half of all Italians work in businesses with fewer than 20 employees. Indeed, even in Italy's large companies mergers and acquisitions are relatively rare. Family ownership, which is still widespread, tends to push against giving up control. The country has lots of fine family-owned companies run by dynamic managers, but on average family firms perform worse than others: a study of successions in 229 firms by the Bank of Italy found that returns diminished in companies where the owner's heir took charge and increased under new bosses unrelated to the founder.

Like too many other businesses, the cafe operates largely in cash. UniCredit, a bank, says it spends about three times as much per customer handling cash in its Italian branches as it does in its German ones because Italians have a preference for avoiding electronic payment systems. These two features of business in Italy-small firms and cash in hand-make tax evasion easier. The boss of one Italian bank who is currently renovating a house in the north of the country says that 48 out of the 50 small contractors he has used have been reluctant to provide a receipt. Istat, the national statistics office,

estimates that underground economic activity amounts to 16% of GDP. This in turn places an extra load on the companies and individuals who do obey the law. At 45.6% of GDP Italy has a high tax burden, but the number understates the costs shouldered by those who actually pay.

Made in Italy

Italy does have its share of world-class companies, but too many Italians work in places that resemble ageing cafes and have been slow to adapt to changes in the world around them. Gaggia, the company that made the brilliant espresso machines, failed to take advantage of its position to dominate the growing market for coffee-makers in homes and is now majority-owned by Philips, a Dutch electronics company.

Tax avoidance, low productivity, family ownership, shallow capital markets, a lack of competitiveness: these problems are well documented for anyone who cares to take a look. But the government has been quick to find other culprits: China for hollowing out Italian manufacturing; the European Union for heaping meddlesome regulations on Italian companies and farmers; the south of Italy for dragging the rest of the country down.

These monsters are not as terrifying as they seem. Chinese manufacturing may have taken its toll on some Italian manufacturers in the early part of this decade, but this special report will argue that the worst of this is now over. As for the European Union, plenty of successful economies have learned to live with its single-market directives, and Italy benefits greatly from the absence of tariffs on exports to its biggest market. Nor is the south, Italy's customary punchbag, entirely at fault. If anything, over the past few years it has been dragged down by the north: in the recent crisis the south's economy, which is dominated by the public sector, shrank by less than the rest of Italy. Ultimately the country's economic failings express the preferences of a plurality of Italians. And like so many other things in this very old new country, these have deep roots.

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Business

Renaissance men

Cartels that make life cushy for insiders exact a heavy toll on everyone else

VISITORS TO FLORENCE sometimes get so absorbed by the famous cathedral and its dome that they overlook one of the great wonders of the Renaissance right opposite the Duomo. Lorenzo Ghiberti's baptistery doors, decorated with panels telling Bible stories, were so admired by Dostoyevsky that he had a full-size picture of them stuck to the door of his study in St Petersburg. The bronze doors were paid for by the local guild of cloth importers, who could afford such grand gestures because they extracted handsome rents by preventing competition from other importers. This was a marvellously profitable arrangement for the guild's members. It was not so good for their customers or for anyone who wanted to set up in business on their own terms. Something similar still happens in many areas of business in Italy today.

Italy is a wild forest of little privileges, rents and closures. Each has its own lobby group; together they conspire to make reforms close to impossible. This is particularly evident in the service sector. The government is reinstating minimum charges for lawyers, a group not normally considered to need protection from unscrupulous employers. At the other end of the labour market, barriers to entry in jobs that might attract immigrants are high. In Britain pharmacies are often staffed by bright young Asians. In Italy until recently the law set minimum distances between pharmacies, handing a huge advantage to incumbents and blocking new entrants. If the owner of one of these shops died, his heirs had the right to run the business for ten years even if they were not qualified pharmacists. These laws were tweaked in 2006, but three years later the desired competition had still not materialised and only 64 pharmacists in Italy had more than one shop.

Taxi driving, a job in which immigrants often predominate, is another closed shop. In New York it is rare to find a taxi driver born in America. In Milan, Italy's most dynamic city, it is rare to find a taxi. A recent unscientific survey conducted over a week spent in the city suggests that all of its taxi drivers are native Italians who have paid a vast amount of money to join a guild that boosts their wages by holding down the number of taxis. A more scientific study revealed that in 2003 the cost of a taxi licence in Milan was euro200,000 ($226,000), and in Florence in 2006 such licences changed hands for euro300,000. In New York taxi badges also fetch amazing amounts of money: one reportedly sold in 2007 for $600,000. But there they tend to be shared among lots of people, a practice that would undermine Milan's taxi guild. Drivers there look on the permits as a pension pot, selling them on when they retire, so there is great pressure not to devalue them by issuing more.

The principle of granting a few people comfortable privileges at the expense of the rest is not confined to the workplace. Italy lacks a system of universal unemployment benefits, so that people working next to each other on a production line but performing different tasks may be paid at different rates and for different periods if they lose their jobs. This may be unfair, but challenging it is politically awkward and no party has shown much appetite for doing so. Besides, privileged cliques have long been a feature of Italian politics too, from the left-wing cabal that has ruled Naples for the best part of the past two decades to the stranglehold on the governorship of Lombardy for the past 15 years by Communion and Liberation, a Catholic movement with a political wing, which has been much criticised for handing out jobs to supporters.

The losers in these closed systems show up in the unemployment statistics, where the young are disproportionately strongly represented. More than a fifth of 15-to-29-year-olds neither work nor study. Young people who do have a job in the formal economy often have to accept unfavourable terms, as set out in a 2003 reform. In order to liberalise the labour market without running the political risk of confronting vested interests, the government introduced a new kind of temporary contract under what became known as the Biagi law. Marco Biagi, the government adviser who devised the legislation, was assassinated in 2002 by far-left terrorists who keep an eye on labour-law reform (a related group killed another government adviser in this field, Massimo D'Antona, in 1999). Workers on these contracts are easier to fire and do not qualify for the unemployment benefits enjoyed by their older colleagues. As a result, a small group of young people find themselves at the receiving end of most of the volatility in the labour market. And as Tito Boeri of Bocconi University notes, Italian workers have a strong preference for jobs that are hard to get and hard to lose, so the arrangement stays in place.

There is also a considerable hidden cost to these cartels. Italy's criminal mafias like small, localised markets such as earth-moving and construction which they can enter, dominate and then choke off competition. Mafia groups from the south of Italy typically find it hard to establish a presence in the centre-north. But where they have succeeded, it has been in these kinds of markets, says Federico Varese of Oxford University, author of a recent book, "Mafias on the Move". In some cases mafia groups were able to control town councils with the votes of a few hundred southerners who moved north and were awarded public-works contracts for their trouble. Or the process can work the other way round, with cartels seeking the assistance of mafia groups to keep out competition.

An antipathy to competition is not limited to small businesses. When Air France-KLM tried to buy the bankrupt Alitalia in 2008, the Italian prime minister described their offer as "offensive". Instead, the government took euro1.2 billion of Alitalia's debt onto its balance-sheet (in addition to the euro3 billion Italian taxpayers had already pumped into the company), sold it to a group of Italian investors and gave Alitalia a monopoly on the route between Rome and Milan's most convenient airport (Linate) for three years. If this fails to make the airline profitable, then no doubt more of the same will be forthcoming.

Undoing such cosy arrangements is not easy. Ever since the triumph of Silvio Berlusconi's company Mediaset in commercial television, Italian TV has been a duopoly between Mediaset and RAI, the state broadcaster. This was disturbed by the entry of Sky Italia, owned by News Corporation, in 2003. The company bought up two struggling pay-TV outfits and built a huge headquarters outside Milan, complete with the vast studios required to film shows with live audiences that Italian viewers are particularly keen on. This made News Corp one of the largest foreign investors in the country.

The company grew fast, reaching almost 5m subscribers last year. But its success has brought unwelcome attention. As part of a package of legislation in response to the financial crisis, the sales tax on pay-TV was doubled, and Sky Italia has been hit by a law that reduces the number of advertisements that pay-TV channels can run and increases the quota for free-to-air TV channels, where Mediaset makes its money. If a new proposal now in the works gets through, it will regulate the number of films that can be shown during the day and kill off a handful of Sky Italia's film channels. One unusual feature of Italy's economy is the small amount of inward foreign direct investment it gets: as a proportion of GDP, this has been well below the EU average for each of the past 20 years. Sky Italia's experience suggests this is no coincidence.

Red flags and rosaries

Italy has a smattering of liberals, in the British rather than the American sense of the word, who bemoan these habits, but they are not numerous enough to have political clout. Their scarcity is explained by a hostile environment. For 50 years after the second world war most Italian voters had a choice between Christian Democrats, who borrowed their aversion to money-changers from the Catholic church; and the Communist Party, which emerged from the war so strengthened by the role of communists in confronting Mussolini that, with its allies, it won 31% of the vote in the general election of 1948, making it the most successful communist party in the West during the cold war.

When this old order was swept away by the fall of the Berlin Wall and the "clean hands" trials in the early 1990s, which revealed a system of kickbacks from companies to finance the mainstream parties, it was replaced by something almost as strange. On the right the two main parties-Mr Berlusconi's People of Freedom and the Northern League-often take an anti-competitive stance. A paper by Fabiano Schivardi of the Centre for North-South Economic Research and Eliana Viviano of the Bank of Italy found a positive correlation between right-wing control of local authorities (which have had powers to regulate retailers since 1998) and weak competition. The League in particular talks nostalgically of a world of small artisans and farmers in need of protection.

The left has a better record on prising open markets in recent years. Pier Luigi Bersani, a former communist who now heads the Democratic Party, the biggest party on the centre-left, pushed through a number of reforms when the left was in power from 2006 to 2008. But, unusually in Europe, Italy still has a large number of unreconstructed Marxists whose support any left-wing government needs to gain a majority. Sergio Marchionne, the Italian-Canadian boss of Fiat and Chrysler, describes a visit to Mirafiori, a factory in Turin, to speak to the workers about changes in their contracts. At the time about one in three employees in the company's Italian plants was absent every day for one reason or another. He was

met by thousands of red flags, there was talk about class struggle and analogies were being drawn with the fight against fascism in the late 1940s.

European single-market directives have nudged Italy towards more competition in some areas. But as Fiat's example shows, even the largest companies sometimes seem to consist of lots of little guilds. This has made the upheavals of the past decade harder to deal with.

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Globalisation and immigration

Benvenuto, up to a point

The world comes to Italy

"WE TEND TO assume that Italy is a boring country where nothing changes," says Giacomo Vaciago of Universita Cattolica in Milan. "The economy doesn't grow, the government doesn't function, the south is criminal and useless. But in fact radical changes have occurred in the past ten years." The past two decades may not have been quite as dramatic as the post-war miracle years ("when something in Italy works, it is always called a miracle," quips Mr Vaciago), but they may be bringing about a transformation that is just as profound. In this period the world has come to Italy-indirectly through globalisation, and directly through immigration. People from all over the world wanted to make a life in a country long used to exporting people rather than receiving them. These changes have caused more alarm than delight.

"Compared with a few years ago, compared with the world before globalisation, we have for sure more material goods, but we are losing something fundamental. We are losing hope. We have our mobile phones, but we have no children." The

writer is not some left-wing cultural critic but Giulio Tremonti, Italy's finance minister, in a book called "Fear and Hope", published in 2007. Since entering into "the Mephistophelian pact with the god Market," writes the man in charge of Italy's economy, the country is finding that the Faust story is turning out the way it always does, with the economy damaged by cut-price competition from Asia and cherished traditions discarded.

Some parts of the economy were indeed hit hard by foreign competition in the early 1990s and the first half of the past decade. The textile industry, along with other low-technology manufacturing, proved particularly vulnerable. Italy's many industrial clusters, once held up by Michael Porter of Harvard Business School as a big competitive advantage, have had their logic tested by lengthening supply chains.

Yet this picture is already out of date. Even before the financial crisis took hold, about half of all firms with at least 20 employees had restructured and the manufacturing sector had regained competitiveness lost earlier in the decade, according to a study by the Bank of Italy. An impressive number of mid-sized companies have turned themselves into what Italians now call pocket multinationals. In 2008 Italy had 21,000 such companies operating in 150 countries. Two-fifths of them expect their business abroad to grow more than at home this year, compared with one-fifth who expect the opposite. "Italians grow faster than Italy does," says the quotable Mr Vaciago.

Italy's competitive firms have done well out of globalisation. The new rich of the emerging world are as keen on luxury goods made in Italy as are wealthy Europeans, Japanese and Americans. Ferrari sold 256 cars in China last year. Italy's famous fashion houses may now outsource everything bar the design and finishing of their products, but the size of their new markets makes up for that. Purveyors of less glamorous items such as Manuli, which makes hydraulic hoses, or Brevini, which makes gearboxes, have benefited from the opening of markets. Expansion abroad has transformed Finmeccanica from one of many stodgy state-run conglomerates into the world's eighth-largest maker of weapons.

Foreign expansion is often viewed as coming at the expense of jobs at home. Three-quarters of Brevini's 2,000 workers are outside Italy. Manuli's boss, Dardanio Manuli, says that running a business in Italy is so hellish that he dreams of shifting all of the company's production abroad. But firms that expand internationally often seem to create jobs at home too. A recent paper using data from 2000-06 found that Italian multinational manufacturers who expanded abroad did not cut back on employment at home; if anything, domestic and foreign activity expanded together.

The tempest

The second way in which the world has disturbed Italy over the past two decades has been more direct. The summer months usually bring boatloads of African migrants to Lampedusa, a rocky outcrop between Sicily and Tunisia. This year has brought more than ever, with the usual number of economic migrants swollen by those unsettled by unrest in Tunisia and Libya. Italy's foreign minister, Franco Frattini, warned of "an exodus of Biblical proportions" emanating from north Africa. Italy responded by issuing these unwelcome guests with temporary documents, in the hope that they would go to France. A junior minister from the Northern League recommended opening fire on boats carrying migrants. Fate seemed to be on his side: one boat carrying 200 migrants capsized, killing all but about 50.

All this drama has diverted attention from another big change in recent years: the largely peaceful absorption of a huge number of migrants, both legal and illegal. The proportion of foreign-born residents in Italy grew from 0.8% in 1990 to 7% in 2010, a huge turnaround for a country that had been exporting large numbers of Italians for a hundred years, starting in the third quarter of the 19th century. On arrival, most migrants have headed for the centre-north, though plenty of newcomers are also working in agriculture in the south.

To some degree this flow has replaced the traditional migration of young Italians from south to north. The results are often striking. Take Prato, a beautiful town in Tuscany that grew rich on foreign trade in textiles during the Middle Ages and has the churches and paintings to show for it. The province of Prato has 10,900 resident Chinese nationals, many of them working in the textile industry. Only Milan, more than ten times Prato's size, has more. In total, 13% of Prato's population was born outside Italy, according to Italy's national statistics office. Allowing for the Chinese that live in Prato illegally, the real number may be far higher.

Migrants come to Italy from all over the world, but around half the foreigners now legally resident there were born in eastern Europe. There are 890,000 people from Romania alone. Integrating migrants into what, for all Italy's divisions,

was previously an ethnically uniform society has not been easy, but it has gone better than expected. Some of the credit for that goes to the Catholic church, which has played a role in helping migrants to settle even if they have arrived in the country illegally. An amnesty system that allows for domestic workers to become legal migrants after five years in the country produced an apparent jump in the number of Peruvians living in Italy, from 78,000 to 88,000, and of Filipinos, from 114,000 to 124,000, in the year to January 2010. Many of them will have found jobs as maids or carers through church networks.

Catholic eastern Europeans can blend into Italian society fairly easily, but the same is not true for all migrants. Prato's influx of Chinese has caused tensions there, though they have been of the economic rather than the racial sort. But there have been signs of racial resentment elsewhere. Mario Balotelli, a brilliant but petulant Italian footballer of Ghanaian descent, has been booed by fans while playing for his country. In one match a banner that read "No to a multi-ethnic national team" was unfurled. Fortunately that kind of hard racism is no more common than anywhere else in western Europe. And mass migration is too recent a phenomenon to be able to tell whether Italy is practising the softer kind, such as discrimination against job applicants with darker skin.

As it happens, Italy cannot afford to be too choosy about the colour of its future workforce. Without immigration, its population would have declined by 75,000 in 2009, the most recent year for which figures are available. With it, the population grew by a modest 295,000. Migrants are all the more needed because so few women are in the labour force. In other European countries many mothers drop out of formal work for a few years after childbirth but then return. In Italy women's participation in the labour market continues to decline as the child gets older. A paper by the Bank of Italy found that those most likely to go back to work were female entrepreneurs and public-sector workers.

For all the hostility to foreign influence, Italy is creeping towards an unplanned compromise with the world in which companies' international expansion benefits those who stay at home and foreign workers fill a hole created by the shrinking of the native population. It may look messy but it works, and it is steadily transforming the place.

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Education

The ins and outs

Italians are deeply anti-meritocratic

EACH WEDNESDAY NIGHT in west London a group of Italian expatriates gathers to play five-a-side football on an astroturf pitch under a flyover. The group's organiser, a native of Milan in his 30s, works for a multinational company that may post him to the Middle East next. He says he will never go back to Italy, a sentiment shared by many Italian exiles. His sister, a doctor, is still in Italy, where she works for lowish pay despite her degree from a famous American university; a large chunk of her earnings goes to a senior consultant. Her husband, a lawyer, was recently told by his firm that he is too young to be promoted.

Italy is indulgent towards its children in some ways-it is not unusual for them to live at home until they are in their 30s-but hard on them in others. "A typical Italian family these days", says Enrico Letta of the Democratic Party, "has some great-grandparents, four grandparents, two parents and one child. This poor child has so many people planning its life, there is no possibility of it ever taking a risk."

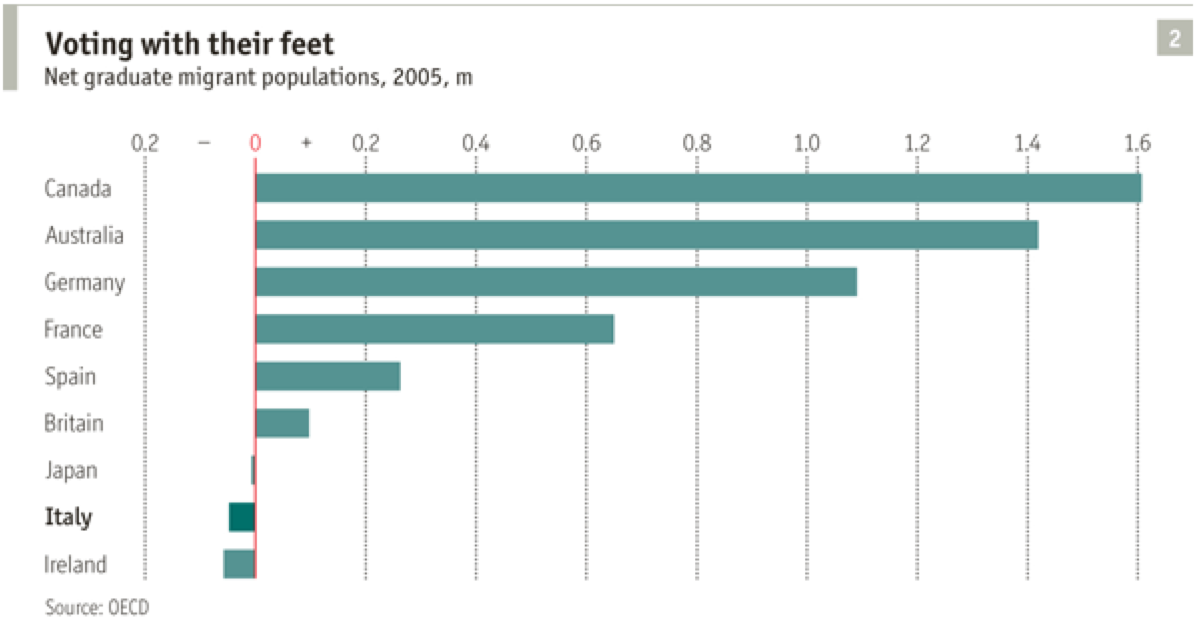
The government transfers money from young to old by spending 14% of GDP on pensions, a higher proportion than any other OECD country. Italy's demography ought to hand a big advantage to the young who, thanks to a fertility rate of just 1.4 per woman (well below the rate required to hold the population steady), are becoming scarce. But instead of gaining extra bargaining power, they are blocked by gerontocracies everywhere.

Politics is the most visible one. The average age on taking office of Italy's 11 prime ministers since 1990 was 62. Mr Berlusconi, the current incumbent, is 74. Cesare Geronzi, one of the great power-brokers in Italian business, was 76 when he was forced out as chairman of Generali, Italy's biggest insurer, in April. His predecessor, Antoine Bernheim, left at 85. Journalism is little better: the same ageing columnists keep filling the op-ed pages in Italy's main newspapers. Even Italy's mafias are run by old men: Bernardo Provenzano, the boss of the Corleone mafia family, was 73 when he was arrested in 2006. The prize catch in a big operation last year against the 'Ndrangheta, a particularly nasty group from Calabria, was the man thought to be its boss, 80-year-old Domenico Oppedisano.

Ageing societies need to get better at finding work for older workers, but giving them all the corner offices is not the way to do it. One former employee of Telecom Italia describes how, on his first day at the company, he was told that if he wanted to speak to someone at the same level in the organisation he should get his secretary to call the other person's

secretary; but to speak to someone more senior he should call that person's secretary direct. Some senior managers did not use e-mail; their secretaries would print out any important ones for them.

Faced with having to wait until they are the age of their grandparents to become senior, many of Italy's best and brightest leave. Universities in America and Britain are full of Italian academics too ambitious to sit around for decades to get tenure in Italy. International bureaucracies such as the World Bank, IMF and OECD are replete with Italians wielding PhDs. Brussels is another escape hatch: Italy is a great provider of dedicated Eurocrats. Perhaps the single most damning indicator of Italy's current economic health is that it is the only net exporter of graduates among rich European countries, something more commonly associated with developing countries than with developed ones (see chart).



Many of Italy's graduates leave to escape the system of *raccomandazioni*, or connections (often through families), that rules the labour market. Examples of such practices can be found in every country, but Italy is different for two reasons: *raccomandazioni* are ubiquitous and rarely questioned.

It might be tempting to ascribe this preference for connections over qualifications to what Edward Banfield, an American sociologist, called "amoral familism". In a book on poverty in southern Italy, "The Moral Basis of a Backward Society", published in 1958 but still controversial today, Banfield argued that Italian family bonds are so tight that they prevent people from coming together to create outcomes that benefit a larger number. The thesis was intended as an analysis of a single village but has often been read as a condemnation of an entire nation. Happily there is no reason to put 60m Italians on an analyst's couch and examine their deep-seated flaws because a much simpler explanation for the prevalence of *raccomandazioni* is available.

By comparison with other rich countries Italy has good primary schools, average (if very variable) secondary schools and poor universities (with a handful of shining exceptions). Taking the education system as a whole, the most surprising thing is the absence of standard tests in secondary schools. Italian children sit exams after five years of secondary schooling, but these are not the same across the country, making it impossible to compare the results of a student in Bari with one in Bologna. They then go on to universities which are generally not allowed to select the pupils they admit, and spend most of their time learning vast amounts of material by rote. Once they have graduated, their degrees must by law be treated as of equal value no matter which university conferred them, so potential employers have to guess which students are any good.

Italy's education minister, Mariastella Gelmini (pictured on poster above), is aware of the system's defects and is trying to remedy them. When Italy submitted itself for the first time to the OECD's Programme for International Student Assessment (PISA), it became clear that there was a huge divide between weak secondary schools, predominantly in the south, and strong ones in the centre-north. Last year Mrs Gelmini introduced a uniform test, to be taken by students in their third year of secondary school. Encouragingly, the first such tests were criticised for being too tough. The next stage will be to link teachers' performance to the improvement in their schools. The education ministry is running two pilot

projects to measure this which will inform new contracts for teachers from 2013. These reforms have been opposed by teachers' unions, in part because they entail overall cuts in education spending. "There is a misconception that more resources will improve things," says Mrs Gelmini.

Scratch my back

The problems of secondary education look mild by comparison with those of Italy's public universities. *Raccomandazioni* are everywhere. Roberto Perotti of Bocconi University, which is private, has been studying this phenomenon and has so far identified 33 cases where the rectors and presidents of public universities have installed their children, children-in-law and spouses as professors in their universities. The market for academic jobs in public universities is deeply corrupt. Plenty of degree courses have sprung up that seem designed merely to create tenured positions; the ministry of education cites courses on the well-being of dogs and cats and on packaging as examples. Applicants for professorships take part in public competitions for jobs that are neither public nor competitive but designed to lend credibility to decisions that have already been made. Mr Perotti studied 40 such national competitions and found that 70% of the jobs were filled by people who were at least associate professors at the university advertising the job. When outsiders do get jobs, it is often because a deal has been done with another university, on the understanding that the favour will be returned in the future.

One way of improving matters would be to privatise some of the public universities-but that does not seem to be feasible in a country where even modest reform proposals have brought protesters onto the streets. This is a shame, as Italy has some excellent private universities, Bocconi and Universita Cattolica in Milan being notable examples. Another option would be to get the public universities to compete more vigorously, which is what recent reforms have aimed to do. In theory, a tenth of their funding should now be tied to their performance in producing peer-reviewed research. The government would like to push this share up to 30%, though that may be wishful thinking. For the moment, not one of Italy's universities makes it into the top 100 in the two main international rankings of higher education.

Changing universities will take time. The current system of nationwide competitions for academic jobs was introduced because the previous system, which confined the circle of applicants to those from nearby universities, was thought too easy to fiddle. A government initiative to encourage public universities to hire faculty from abroad (by offering extra funding) has had no discernible effect. As so often in Italy, it seems that when the rules change, behaviour changes only just enough to allow everyone to continue as before.

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Institutions

Tangled webs

Conflicts of interest pervading public life conspire against change

ANYONE LOOKING FOR entertaining television in Italy at the end of the day would do well to flick past the Milan football derby and "Italy's Next Top Model" and pick a political talk show instead. These combative, insult-laden programmes are hard to watch and harder to turn off. "Opponents are presented not so much as wrong but as losers or, better, sexually inadequate losers," wrote Tim Parks in the *New Yorker* recently.

Americans might shrug at this, but in Italy things are different-and not just because there is more sex. In America conservatives may rage against Supreme Court rulings like Roe v Wade, but only a far-flung fringe questions the right of the court to make such decisions. In Italy that fringe is in government.

The lines that run between political parties, the civil service, the media, business and the judiciary are more like ribbons that can be bent to any shape under slight pressure. Italy lacks referees who can intervene when this process goes too far,

argues Ferdinando Giugliano of Oxford University. Institutions are further weakened by the conflicts of interest that pop up everywhere. The prime minister's ownership of the country's largest television network is merely the biggest of them.

Back in the 1990s it seemed to some that Italy was on the threshold of an institutional transformation. Membership of the euro would prevent Italy from devaluing its currency whenever exports became uncompetitive, forcing the country to undertake reforms to boost productivity. The breaking up of the Christian Democrats' monopoly on power achieved by the "clean hands" corruption trials would allow Italy to become a more normal democracy in which power alternates between two main parties, providing strong government.

This has not happened. The problems of the Italian economy are still substantially the same as they were 15 years ago, though the government's direct involvement in industry has diminished. Italy has not developed a two-party system: the left is made up of squabbling coalitions of interests that can sometimes be glued together for the sake of winning power but then tend to disintegrate. People of Freedom (PdL), the main party on the right, governs in coalition with another with which it disagrees on fundamental issues, such as how much regional devolution there should be. Moreover, part of the PdL is not so much a party as a group of Berlusconi fans and ex-employees. Giulio Tremonti, the finance minister, was Mr Berlusconi's tax lawyer; Mara Carfagna, the minister for equal opportunities, used to jiggle in a bikini on one of his television channels.

The parties' credibility has also been damaged by frequent tinkering with the rules for electing deputies and senators in Rome. After the clean hands trials Italy pursued piecemeal electoral reform, which did produce strong governments with more stable majorities. But a Berlusconi-led government in 2005 brought in a closed-list system, in the hope that it would make the left even more fragmented than it was already. That did not happen, but it increased the control of party managers and broke the direct link between voters and constituents.

Keeping the political circus going is also strikingly expensive. Parties receive generous subsidies to fund their election expenses: according to the Court of Auditors, between 1994 and 2008 they received euro2.2 billion ($3.1 billion) from general taxation to cover their election expenses, but only euro579m of this expenditure could be verified. A cynical reading of this would suggest Italy's political parties made a profit of euro1.67 billion at taxpayers' expense over this period.

Conflicts of interest affect journalism and business too. The largest shareholder of the company that owns the country's most famous newspaper, *Corriere della Sera*, is Mediobanca, an octopus-like investment bank which holds large stakes in many of Italy's biggest companies. The paper's reporters are independent, but that does not stop Italians indulging in *dietrologia*, the study of whose interest lies behind the stories. Italy's second-biggest newspaper, *La Repubblica*, is owned by Carlo De Benedetti, a veteran industrialist, and managed by his son, Rodolfo. Fiat (whose controlling shareholder, the

Agnelli family, has a small shareholding in *The Economist*) owns *La Stampa* and also has a large holding in *Corriere*. Silvio Berlusconi's brother owns *Il Giornale*, and the prime minister provided the capital to start another friendly newspaper, *Il Foglio*. But it is hard to argue that newspaper proprietors in Italy are vastly more powerful than elsewhere, and there are enough voices to ensure competition.

The same cannot be said of television, which is where most Italians get their news. Mr Berlusconi owns the biggest commercial broadcaster, but his government also has influence over appointments at RAI, the public broadcaster. That twin grip gives him formidable power over how his government is seen on television. Freedom House, an American NGO, reckons that in his 2001-06 government Mr Berlusconi had control over 90% of the broadcast media. That assessment has yet to be updated, but not a lot has changed.

Even without the country's dominant media owner in the Chigi Palace, RAI would be rife with political influence. Seven out of nine members of the body that supervises the broadcaster are elected by parliamentary committee. They spend their time haggling over the share of airtime allocated to their political parties instead of allowing RAI's journalists to keep balance.

Board games

Italian capitalism differs from other varieties in three respects: the use of cross-shareholdings, whereby company A owns shares in company B and vice versa; cascading ownership structures, which allow holders of a relatively small number of shares in a large company to control it via a series of shell companies; and shallow equity markets, which are partly a result of the other two oddities.

In theory the rules for the governance of publicly listed companies are exemplary. In practice they do not deliver the goods: witness Pirelli's value-destroying shopping spree ten years ago which lost it more than euro3 billion ($4.1 billion) on its stake in Telecom Italia, at the instigation of a shareholder who owned just 8% of its equity. Minority shareholders can expect to be frozen out unless they make pacts with other shareholders. One such pact, led by Capitalia and UniCredit, two large banks, governs the ownership of Mediobanca, which has proved expert at using small stakes in companies to get its way. The government still owns large stakes in big public companies like Eni, an oil and gas company that is 30% owned by the Ministry of Economy and Finance, and Enel, which generates and distributes electricity and is 31% owned by the same ministry.

One result is that retail investors stay away. Combined with the widespread family ownership of medium-sized companies (which restricts the number of listed firms), this means Italian capitalism does a poor job of connecting the country's ample private savings with companies in need of capital. Two recent changes-a European directive known as Record Date and an edict from Italy's stockmarket regulator giving independent directors a veto over some manoeuvres-may help the

minnows. But like other aspects of Italian life, corporate culture has a way of remaining essentially unchanged no matter what the law may say.

Justice deferred

To understand how these conflicts block change, consider the government's current proposal to reform the judiciary. Italy's courts follow the principle that appeals should be allowed at each stage of the process so as to minimise the chance of an injustice. This praiseworthy ambition produces nightmarish results. A study by the European Council found that in 2005 it took an average of 1,210 days for a contractual dispute to be resolved in Italy, compared with 229 in Britain and 331 in France. Turin's courts have managed to cut the delays by giving priority to older cases and publishing the rate at which judges clear them. Unfortunately these innovations have not been copied elsewhere, so the foot-dragging continues.

Hence the government's reform proposal. It mixes some things that might help a bit-such as separating the career paths of prosecutors and judges-with some things that would be disastrous, such as making it possible to bring civil lawsuits against magistrates and judges and giving elected politicians a say in which cases should be prioritised. But this reform ought to go nowhere anyway because of the conflicts of interest that come with it. On the government's side the prime minister has been engaged in a fight with "communist" prosecutors since he entered office, and now dedicates a day a week to doing battle with them. There is no way that his government can propose a disinterested reform. As for the magistrates, some of them seem to be politically motivated. Antonio di Pietro, one of the principal judges in the clean hands trials, now has his own political party. But judges, even if they have fought political corruption, should not become elected politicians. So reforming the courts is impossible because everybody's motives are questionable.

"Italy would be relatively normal if it were not for all the little Berlusconis," says James Walston, a political scientist at the American University of Rome. Conflicts of interest and blurred boundaries between institutions seem to be the norm, and powers are amalgamated rather than separated. But all these tangles seem modest by comparison with the prime minister's own. One reason for his remarkable success may be sympathy from people who see something of themselves in him.

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Berlusconi's legacy

The cavaliere and the cavallo

What Silvio Berlusconi promised-and what he has delivered

WHAT DO THE following countries have in common: Madagascar, Bahamas, Kiribati, Togo, Brunei, Saint Kitts and Nevis, Central African Republic, Haiti, Cote d'Ivoire, Liberia, Eritrea and Zimbabwe? Their economies all performed worse than Italy's over the past decade in terms of growth per person. This is not the sort of company that Italy is accustomed to keeping, but unless it can shake off its torpor it may have to get used to such unflattering comparisons.

Silvio Berlusconi has been the dominant figure in Italian politics for 17 years, more than a tenth of Italy's life as a nation. To attribute too much praise or blame to him for the state of Italy today is to exaggerate the power of one man, even a billionaire who has used his money to create his own political party, reached the country's highest elected office and then used it to preserve his interests. If Italy is a patient with some peculiar complaints, Mr Berlusconi is more symptom than cause. Still, to some extent he has shaped the country in his image. Though he jokes about living until well past 100, at 74 he is now in the twilight of his political career. He recently hinted that he will stand down in 2013. What will he leave behind?

When he first became prime minister in 1994 his pitch was simple. He would use his entrepreneurial skills to get Italy moving again, and he would inspire by his own example: the hard-working boy who excelled at his legal studies and built a commercial empire, proving that the American dream could come true in Italy. "When my morale is low, I put my hands in my pockets and go for a walk in Milano 2 [one of his property developments]," Mr Berlusconi once told an interviewer. "I remember how many people were against me...Theirs was a political and bureaucratic machine perfectly designed to impede, to prohibit, to delay and to hinder."

Italy's poor economic performance is sufficient evidence of his failure to sweep away that machine. With hindsight it is clear that he never intended to do so. On the way up, Mr Berlusconi was too big a beneficiary of political and bureaucratic cronyism to regard it as his enemy: the key change to the law that allowed his television network to broadcast nationwide was made by Bettino Craxi, a former prime minister who was also godfather to one of Mr Berlusconi's children. The prime minister has proved repeatedly that he is not an economic liberal.

He has, however, been assiduous in carrying out the second part of his promise: inspiration by example. In 2001 "An Italian Story", a short hagiography of Mr Berlusconi, was distributed to 15m homes. The hero of this tale is a brilliant businessman and good family man who came from nowhere to achieve great success and is now determined to give something back to his country.

Despite all his trials for bribery and fraud, as well as the one currently in progress for paying an underage prostitute for sex, about 30% of Italy's electorate still support him. They are disproportionately old and female and live in small towns, according to Nando Pagnoncelli of Ipsos MORI, a polling company. They watch a lot of television but do not read newspapers. Many of them do not believe there is any truth in the accusations against the prime minister.

In government Mr Berlusconi's achievements have been unimpressive, given the power he has enjoyed. One reason for this is that business interests and legal troubles have absorbed his energies and distracted the government. In local polls in Milan and Naples last month Mr Berlusconi's party performed abysmally. The decline is his ratings reflects a widespread view that a politician who once claimed to be able to cut through bureaucracy and get things done is now bogged down in a personal battle with the courts which has turned into an obsession for him. His approval ratings rose after an earthquake in L'Aquila two years ago which he was seen to have handled well, but then tumbled when the promised action did not materialise. The town centre there is still barred to property owners and residents. Contracts for making the buildings safe are, not surprisingly, being handed out without competition. Mr Berlusconi's generous personal gift of cash to L'Aquila's rugby club has not atoned for this.

It was, though, characteristic of Mr Berlusconi's style of government. On a recent visit to Lampedusa, the island overwhelmed by the arrival of North African refugees, he declared that the parched outcrop would become a new Capri and announced he would buy a villa there. "Berlusconi is pathologically inclined to please other people; he needs their affection," says Giuliano Ferrara, editor of *Il Foglio* (funded by Mr Berlusconi), presenter of a talk-show on RAI and briefly a cabinet minister under Mr Berlusconi. "He needs to come to terms with this with his analyst." This streak affects the way decisions are made. "Berlusconi says yes to everything and then Tremonti [the finance minister] says no," says another former cabinet minister, who thinks Mr Berlusconi has damaged Italy but nevertheless describes him as "charming, magnetic, one of the most intelligent people I have met".

The fundamental defect of Mr Berlusconi's governing style is that he often confuses private interests with public ones. This is most obvious when using the power of his office to protect himself from foreign competitors to his business or from prosecutors (some years ago he took this newspaper to court for publishing an investigation into some of his business dealings). But it has also defined Italy's recent foreign policy. As the leading western European provider of blue helmets to UN peacekeeping operations, Italy has a good story to tell, but Italy's two most distinctive positions in recent years have been determined by Mr Berlusconi's friendships. Italy long offered unquestioning support for Muammar Qaddafi in Libya. It has now changed tack, but Mr Berlusconi has said in private that he is "mourning" for Colonel Qaddafi. Italy has also taken an odd stance towards Russia, taking every opportunity to stand up for Mr Berlusconi's friend and fellow prime minister, Vladimir Putin. "Even the foreign minister admits to wielding no influence on Berlusconi on Russia," wrote the author of the cables sent from America's embassy in Rome and published on WikiLeaks last year.

In all, Mr Berlusconi's legacy will be the further weakening of institutions that were not strong to begin with, and an even greater tolerance for damaging conflicts of interest. Fifteen years of verbal assaults on Italy's courts have left many people believing that the legal system is a conspiracy of diehard leftists trying to undermine the government. Mr Berlusconi and his supporters have buttressed these attacks by falsely claiming that he has never been convicted of anything and that he was never in any trouble with the courts before he went into politics. In 1990 Mr Berlusconi was convicted of lying in court but avoided jail on a technicality. On several occasions since then he has been saved by time limits on prosecutions. Meanwhile the difficult reforms required to make Italy grow have been put aside.

There is a positive side to all these omissions: Italy's recent underperformance leaves room for a vast improvement with a relatively small amount of effort. Most of the reforms that the country needs to introduce in order to get going again are tweaks to microeconomic policy that would not cost much. Reforming the labour laws would be a good place to start. In their book "A New Contract for All", Tito Boeri and Pietro Garibaldi have outlined how this might be done: by creating a single contract for all workers, with privileges increasing in stages. The European Commission and its single-market directives provide plenty of political cover for Italy to push towards greater liberalisation. Politicians should make the most of it. Who knows, one day voters might even reward them for being brave.

Alamy

Such reforms would be resisted by the little guilds of workers, but change is not impossible, as has been shown by a series of pension reforms introduced by governments of various stripes between 1992 and 2009. They are considered a model for the rest of Europe, raising the retirement age and indexing it to life expectancy. Italy's expenditure on pensions will soon start to shrink from its current high. The European Commission expects the country's pensions spending as a proportion of GDP to fall by 0.4% between 2009 and 2060, whereas expenditure in the euro area as a whole will rise by 2.7% of GDP.

Likewise, by driving so many of its brightest and best abroad, Italy has created a precious resource of emigres with useful experience who could have a huge effect on national life if they returned. A small town called Catanzaro in Calabria, Italy's most benighted province, recently witnessed a fascinating mayoral campaign that pitted a 27-year-old called Salvatore Scalzo, returned to Italy after studying international relations in the Netherlands and briefly working at the European Commission in Brussels, against 64-year-old Michele Traversa of the PdL. Though he lost by a wide margin, Mr Scalzo (whose surname means "barefoot", prompting headlines about "the barefoot candidate") shook up a place not renowned for its competitive politics by relentlessly campaigning on Twitter and Facebook and fund-raising online. If the barefoot effect were multiplied a few thousand times, it would test Italy's resistance to change.

For all its quirks, though, there is much that is admirable about Italy. It is a rich, peaceful, civilised country that does not feel like a place in crisis. Its president, Giorgio Napolitano, manages to float serenely above the political turmoil and use his largely honorary office to rein in some of the more outrageous antics of elected politicians. Its constitution has stood up surprisingly well under bombardment. The Bank of Italy is a great institution in a country with few of them. Its boss, Mario Draghi, should make a fine leader of the European Central Bank. Italy has many brave anti-mafia campaigners who have risked their lives to keep an old Italian tradition of civic activism alive. And as 42m foreign tourists a year can attest, it is a lovely place to visit.

In its short life as a nation Italy has already rebuilt itself several times. For the past few decades, though, it has been living on the afterglow of an economic miracle that came to an end in the 1970s. It could continue like this more or less indefinitely, steadily growing poorer and older but still managing quite comfortably. For the moment this seems the most likely thing to happen. But the country is overdue another reawakening like the one that led to unification 150 years ago.

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Internet companies

Welcome to IPOville

Social-media firms see champagne; others see bubbles

INITIAL public offerings (IPOs) of internet start-ups are like buses: you wait ages for one to arrive, then several turn up at once. After years in the doldrums, the IPO market for technology firms has suddenly sprung to life again in America.

LinkedIn, a social network for professionals, kicked things off last month with a flotation on the New York Stock Exchange (NYSE) that valued it at $8.8 billion-572 times its profits last year-at the end of the first day of trading. Now a number of web outfits, including Groupon, which offers online coupons, and Pandora Media, an internet-radio firm, are queuing to join the party. Other start-ups could soon add themselves to the crowd, notably Zynga, the creator of addictive online games such as FarmVille, in which players grow turnips and breed pigs.

Web companies from China, Russia and elsewhere are also rushing to list on American exchanges. Shortly after LinkedIn's stunning debut, which saw its share price more than double, Yandex, Russia's largest search engine, floated its shares on the NYSE. Its price soared by more than 50% on the first day of trading. These first-day "pops", as bankers call them, have stoked fears that a new internet bubble is inflating and reignited a furious debate about how best to value web start-ups.

Groupon's potential price tag ($15 billion, by one estimate) is already controversial. Labelled "the fastest-growing company ever" by ardent fans, the firm has turned a simple concept into a money-spinner. Customers sign up to receive offers from local firms. Groupon spices up the process by, say, having some offers expire unless a certain minimum number of people subscribe to them. This prompts people to nag their friends to shop at the same boutique or eat at the same diner-hence the "group" in Groupon.

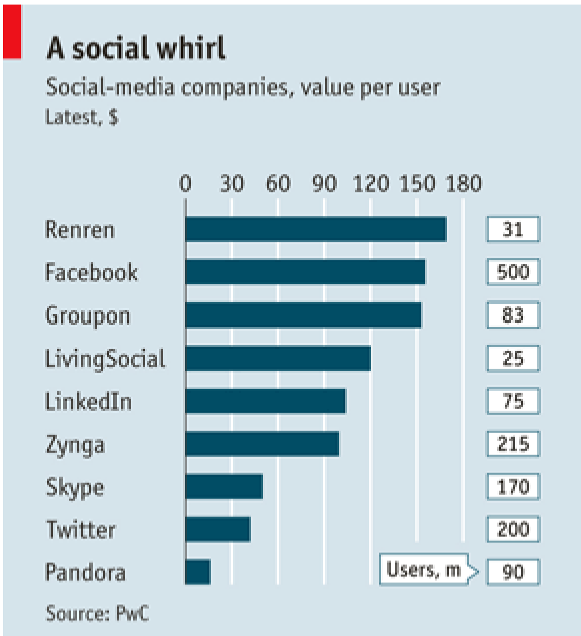
The firm typically keeps roughly half of the money that customers fork out, with the rest going to the businesses that actually supply the goods and services. Last year its revenues were $713m. In the first quarter of 2011 it took in a breathtaking $645m. Although Groupon is less than three years old, it operates in 43 countries and has no fewer than 83m subscribers.

The snag is that the company is still bleeding red ink. It lost $390m in 2010 and $103m in the first quarter of this year. Critics find this alarming. Groupon retorts that it is simply spending heavily to scoop up subscribers while the market it created is in its infancy. In its IPO prospectus, it urges investors to focus on other measures, such as free cashflow

(operating cashflow minus capital expenditure), which was positive last year, and the arcane-sounding "adjusted consolidated segment operating income", which excludes such things as cash spent on online marketing.

"The path to success will have twists and turns, moments of brilliance and other moments of sheer stupidity. Knowing that this will at times be a bumpy ride, we thank you for considering joining us," writes Groupon's boss, Andrew Mason, in a letter to potential stockholders. Not everyone is reassured.

How should one value a money-losing firm in a new industry? PwC, a consultancy, ranks web firms according to their "value per user". This is calculated by dividing a start-up's estimated worth (derived from venture-funding rounds, equity transactions on secondary markets and so on) by the number of its users.



By this benchmark, Groupon scores well, just below Facebook and Renren, a Chinese social network with a listing in America (see chart). But such measures do not reflect the risks of Groupon's model. The company may boast 83m users, but only 16m have actually bought a Groupon. Its success outside America has been patchy: just 9% of its subscribers in London have ever bought anything from it.

Facebook enjoys a powerful network effect; Groupon, less so. It must spend a fortune to keep signing up new subscribers. Hence its keenness to steer investors towards a measure that excludes marketing costs. Groupon's growth has attracted big competitors such as LivingSocial as well as a host of smaller start-ups. These rivals could poach its users with cheaper deals. And they could offer retailers better terms, too, in the process threatening Groupon's fat margins.

All this shows why setting an offering price for shares in an IPO is so tricky. "It's more an art than a science," says Paul Bard of Renaissance Capital, an IPO research firm in America. Investment banks are supposed to be masters of that art. But some people, such as Peter Thiel, a big early investor in Facebook and LinkedIn, have accused the banks involved in the LinkedIn transaction of drastically underpricing the shares.

Bankers have sometimes been accused of underpricing deals so that their investment clients can make a swift killing on a firm's shares. However in this case Mr Thiel's gripe was that the banks failed to appreciate LinkedIn's tremendous potential. Perhaps it never occurred to the bankers involved that people would pay so much for such a risky stock.

Yet there is something to be said for erring on the side of caution when setting initial offer prices. Elizabeth Demers, a professor at INSEAD, a business school near Paris, points out that what companies lose in terms of hard cash in the early days can often be made up for in terms of the publicity they get when the news media applaud the explosive rise in their share prices. They can also launch secondary issues of other shares at the new price established by the IPO. Unless, of course, this really is a bubble, and it bursts.

Chinese manufacturers

The end of cheap goods?

Some are predicting the end of the cheap "China price"; others are more sanguine

"IT IS the end of cheap goods," says Bruce Rockowitz. He is the chief executive of Li & Fung, a company that sources more clothes and common household products from Asia than perhaps any other. In the low-tech areas in which Li & Fung specialises, the firm handles an estimated 4% of China's exports to America and a sizeable chunk of its exports to Europe, too. It has operations in several East Asian countries, where it diligently searches for cheap, reliable suppliers of everything from handbags to bar stools. So when Mr Rockowitz says the era of low-cost Asian production is drawing to a close, people listen.

He argues that Asian manufacturing has gone through a number of phases, each lasting about 30 years. When China was isolated under Mao Zedong, companies in Hong Kong, Taiwan and South Korea grew expert at making things. When China reopened in the late 1970s, after Mao's death, these experienced Asian operators converged on southern China. With almost free access to land and labour, plus an efficient port and logistics hub in nearby Hong Kong, they started to make things ever more cheaply and sell them to the whole world.

For the next 30 years manufacturers in China helped to keep global inflation in check. But that era is now over, says Mr Rockowitz. Chinese wages are rising fast. A wave of new demand, especially from China itself, is feeding a surge in commodity prices. Manufacturers can find some relief by moving production to new areas, such as western China, Vietnam, Bangladesh, Malaysia, India and Indonesia. But none of these new places will curb inflation the way southern China once did, he predicts. All rely on the same increasingly expensive pool of commodities. Many have rising wages or poor logistics. None can provide the scale and efficiency that was created when manufacturers converged on southern China.

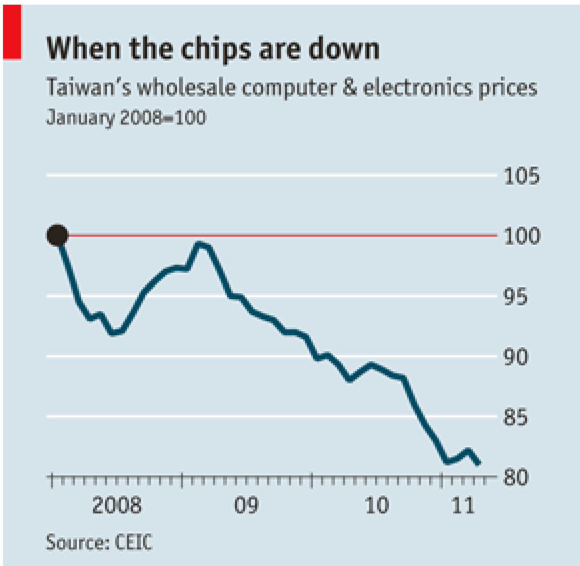
Nothing can replace the Chinese miracle. "There is no next," says Mr Rockowitz. Prices will now start to rise by 5% or more each year, with no end in sight. And that may be optimistic. So far this year, Mr Rockowitz says, Li & Fung's sourcing operation has seen price increases of 15% on average. Other sourcers of Asian toys, clothes and basic household products tell similarly ominous tales.

Yet manufacturers in some other fields see things differently. On May 31st, the day Mr Rockowitz spoke in Hong Kong, the annual Computex fair opened an hour's flight away in Taipei. Hotels were packed, even at inflated prices. The world's hottest technology companies, such as Apple and even Taiwan's HTC, were absent. But nearly 2,000 vendors showed up to hawk cheap and innovative gizmos.

Mainland Chinese firms arrived in force: more than 500 hired booths, up from 200 last year. Many are from the same parts of China that were once noted for cheap textiles and toys. With government encouragement, the belt that stretches from Shenzhen to Guangzhou has been shifting to more sophisticated products, such as electronics.

Some of the more striking offerings at the fair were ultra-cheap versions of global hits. A company named BananaU advertised tablet computers with Google's Android operating system for $100. Another pushed Windows-based thin computers looking much like MacBooks for under $250. E-Readers were everywhere and available for a song.

Whether these products can be produced or sold in developed markets is unclear. The quality may be "B" for Banana rather than "A" for Apple. The intellectual property embedded in some devices may not, ahem, have been paid for. But still, the booths were packed. Buyers goggled and haggled over motherboards, memory chips, solid-state drives, servers, graphics cards, non-tangling cables, connectors, monitors and so on.



In 2009 the prices of these electronic goods jumped suddenly, as buyers emerged from the financial crisis and started ordering more equipment from manufacturers which had slashed capacity. But data collected in Taiwan suggest that prices are now falling sharply again (see chart). If the vendors at Computex had a common slogan, it would be "more for less".

Among the products that generated the most heat were those that saved energy. These included alternating- and direct-current converters, and sensors that could moderate the power consumption of streetlamps, fridges and air conditioners. Such devices were initially marketed for their "green potential", but what buyers liked was their ability to enhance productivity. Japanese firms, which have had to make do with less power since the earthquake, were particularly eager.

Chinese firms were curious about any product that lowered costs or made it easier to automate. When labour was cheap, Chinese firms used it inefficiently. Now they are learning how to get more from fewer hands. Li & Fung may be sounding the closing bell on one era of production, but the Taipei computer fair suggests that another is emerging.

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Music and technology

Digitally remastered

The recorded-music business learns to love its enemy

ONE of the great alchemical feats of the past ten years has been the transformation of media-company profits into technology-company profits. There is no greater alchemist than Steve Jobs, Apple's boss, who was back on stage on June 6th. The creator of the iPod and the iPhone unveiled a new service that will make it easier to store music on remote servers, "in the cloud". Apple will surely benefit. But music executives are oddly optimistic, too. In several ways, not all of them having to do with Mr Jobs, technology is starting to work in their favour.

Theirs is still a deeply troubled business. Since 2000, when online file-sharing took off, global recorded-music sales have fallen from $26.9 billion a year to $15.9 billion, according to the IFPI, a trade group. Apple has helped to smash profitable albums into less profitable singles. High-street music shops are closing.

Digital outlets such as iTunes are not growing nearly fast enough to offset the decline in CD sales. Indeed, in many countries they are stuck in a niche. In Japan, 73% of spending on recorded music in 2010 was on CDs, DVDs and vinyl. Fewer than one-fifth of Britons bought digital music last year. Streaming services such as Spotify, which make money from advertising and subscriptions, are not yet helping much. They brought in just 3% of total recorded-music revenues last year, according to the BPI, which represents British record labels.

The new products unveiled by the Great Turtlenecked One this week should push the digital market out of its niche. Apple's iCloud is not just a storage locker for music. It will search devices for tracks purchased from the iTunes store, and automatically give customers the rights to download the music to any Apple device. That puts Apple's service ahead of recent offerings by Amazon and Google, which require users to upload music to the cloud. By making digital music purchases more accessible, it should raise their perceived value, leading to more sales.

Apple also announced a service, not available even in America until later this year, which will scan computers for all music tracks and offer cloud-based access to them for $24.99 a year. Apple will take a cut of sales and give the rest to the record companies. Whereas the iCloud is simply better than the competition, this is a breakthrough. In effect, it will allow music companies to levy an annual fee for the use of their music, whether ripped from CDs or downloaded illegally.

Yet music companies do not expect Apple or any other technological behemoth to save them. Few believe recorded music is about to rebound, despite healthy digital sales for two singers, Adele and Lady Gaga, in the past few weeks. To stay afloat, they need to drive down costs without crippling their core business. Quietly, technology is allowing them to do this, too.

The new data farmers

Online music outfits such as iTunes, Spotify and YouTube bring in much less money than CD sales. But they produce far more precise, timely data. Every time a track is uploaded to or played on YouTube, every time it is sold by iTunes,

streamed on Spotify, shared on a pirate network, liked on Facebook or tweeted about, it gives off a digital signal. A cottage industry has sprung up to process these signals and feed the results to the record companies.

This is already shaping strategies. Universal, the world's biggest music company, is developing its own data-crunching tool, known as the Artist Portal. Data from the portal have proved what many had suspected: that the decades-old practice of releasing music to radio weeks before putting it on sale feeds piracy and saps sales. So, earlier this year, it stopped the practice for many releases.

Atlantic Records' British arm, which is owned by Warner Music Group, increasingly uses data to hone marketing campaigns. Last year it faced the tricky task of touting an artist, Plan B, who had made an abrupt transition from hard-core rapper to besuited soul singer. That meant finding an entirely new audience of young women, while holding on to the rap crowd. Atlantic ran two parallel campaigns, using Buzzdeck, a data-crunching service, to evaluate how each group was responding. It worked: Plan B's album was the sixth-best-selling in Britain last year.

Data aggregators such as the Artist Portal, Buzzdeck and the California-based BigChampagne have so far proved unable to replace human talent scouts. But they are helping record companies get more bang for their ever-shrinking artist-development and marketing bucks. Music companies use data much more shrewdly than, say, Hollywood studios, which still fling huge sums of money at broadcast television in the hope of driving people to cinemas. And they will find new uses.

"We're no longer just a wholesaler of music," says Paul Smernicki of Universal. As their traditional business declines, the music companies are moving into live music and merchandise. To succeed in those markets, they will need to become experts in fan behaviour, understanding not just how and why people buy music but how they weave it into their lives. In that, data will be crucial.

If they could, music executives would uninvent the internet, and perhaps Apple as well. But technology, which has done so much damage to the recorded-music business, increasingly props it up. Media firms can do a little alchemy, too.

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The business of golf

Beyond Tiger

Neither a recession nor the eclipse of its brightest star can stymie the PGA Tour

TIGER WOODS has not won a golf tournament since 2009, when the sex scandal that wrecked his marriage first erupted. Citing injuries, he will not even play in the US Open next week. His successors at the top have all been dull Europeans who could smack golf balls into a crowded city centre all day without hitting anyone who recognised them. The headline: "Nation's Women Throwing Themselves At New No. 1 Ranked Golfer Luke Donald" is from the *Onion*, not the *National Enquirer*.

With its only global superstar eclipsed and the lacklustre American economy hurting its sponsors, professional golf should be in deep financial trouble. Yet it is thriving. The average prize money for a PGA Tour event (the name derives from the Professional Golfers' Association of America, from which the PGA Tour originally sprang) nearly doubled between 2000 and 2010, from $3.3m to $6m. The two highest-earning American athletes in 2010 (including endorsements and appearance fees) were both golfers. Mr Woods, despite his troubles, made more than $90m. Phil Mickelson, an amiable left-hander, made $61.7m. Even the 125th-ranked player on the PGA Tour made around $1m.

The PGA Tour's business model is unusual, cunning and largely the brainchild of Deane Beman, who headed the organisation from 1974 until 1994. In 1978 Mr Beman encouraged all PGA Tour events to incorporate as charities, and to return all net proceeds from tournaments to the communities that hosted them. The thousands of people who run the tournaments each week are, by and large, volunteers, and as Mr Beman says: "I didn't think a bunch of volunteers would give up their vacation time to have a bunch of athletes come in and make a bunch of money and run out of town with the money." Of course, the athletes leave with their fair share, but the tour has donated $1 billion to charity in the past 15 years.

Charity also makes sponsoring golf tournaments more attractive to corporations, and direct corporate sponsorship was the second of Mr Beman's innovations. Golf is more expensive to broadcast than other sports: networks need an army of cameras covering an immense outdoor space. In the late 1970s, when fewer people watched golf on television than bowling, the networks began reducing both the number of events they showed and the fee they paid to show them. Then,

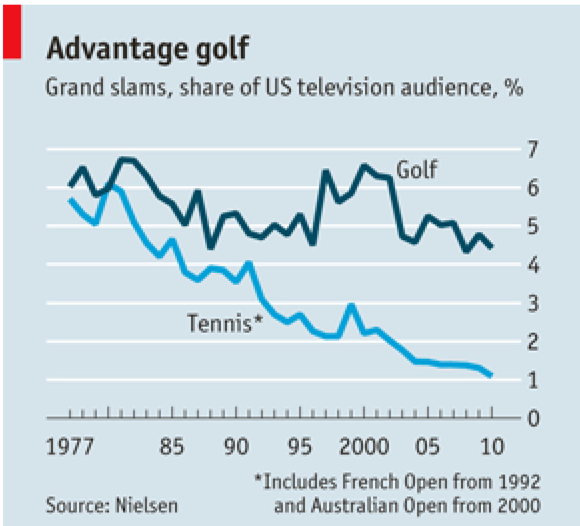
in 1980, the tour offered cable networks a novel deal: corporate sponsors would pay for 40% of the telecast's advertising time upfront.

For the networks, this model eliminated the risk of not recouping production costs. It also made the remaining ad time scarcer, and thus more valuable. For the tour, it meant no longer needing to worry so much about ratings. Tournaments knew in advance that they would break even. And the tour as a whole was no longer dependent on a single source of cash: television now accounts for little more than half of its revenues.

For corporations, golf is golden. According to Adam Schupak, Mr Beman's biographer, a company pays between $7m and $8m to sponsor a PGA Tour event on network television. But that investment translates into up to $55m-worth of exposure: not just in ads and promotional materials, but also because every news story about the event includes a plug. (You can't report that so-and-so won the "Honda Classic" without mentioning the car.) Such returns keep sponsors sweeter than a bunker shot to six inches.

Golf is also attractive to sponsors because of its values, reckons Mr Beman. Players are expected to call penalties on themselves, shake hands with rivals and "act like gentlemen". Footballers routinely cheat; golfers, even those who cheat on their wives, would not dream of it. According to the PGA Tour, over 90% of fans see golfers as "positive role models".

All this has helped the PGA Tour to grow rapidly. Total prize money has soared from just over $8m ($36.5m in today's money) in 1974 to $275.1m in 2010. That figure includes neither the Champions Tour (for the over-50s) nor the Nationwide Tour (for youngsters jostling to join the PGA Tour). Neither of these existed before 1980, yet last year they dished out $54m in prize money between them.



Golf is now far more popular on American television than tennis, despite the latter's explosive action (see chart). Only 1.5% of households watched Rafael Nadal and Kim Clijsters win tennis's (men's and women's) US Opens last year. Fully 10.7% watched Phil Mickelson win the Masters (one of golf's four major tournaments).

Many observers expected the recession to break the PGA Tour's business model. Golf conjures up images of bankers sealing dodgy deals between holes. Hard times and popular revulsion against Wall Street should have sent sponsors fleeing. Yet the tour's revenues have held up remarkably well. Total direct revenues fell a bit between 2008 and 2010, from $486m to $461m. That still leaves them 28% higher in real terms than in 2001.

Tiger may yet roar back. His knee and head may mend, and he is only 35, which is still young for a golfer. But just in case, golf is preparing furiously for the post-Tiger era. The sport is globalising: to the three internationally sanctioned World Golf Championships, a fourth event in China was added in 2009, and a fifth in South Africa will follow in 2012. The PGA Tour plans to open 180 retail shops around China, and golf will return to the Olympics in 2016 in Brazil. The best players perform on every continent, sometimes catching the warm weather in Africa or Asia before spring brings sunshine to fairways in America and Europe.

The PGA Tour is also promoting an array of younger golfers from around the world. None of the past four major-tournament winners was American. None was over 30, either. Is it tempting fate to say that golf is out of the Woods?

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Schumpeter

Tutors to the world

Business schools are globalising at a furious pace-which is largely a good thing

BUSINESSPEOPLE are fond of accusing business academics of being all mouth and no trousers (if the accusers are British) or all hat and no cattle (if they are Texan). But when it comes to globalisation the professors have trousers and cattle aplenty. In the past decade business education has globalised more thoroughly than business itself. This not only matters in its own right (business schools are a big business and a training ground for the global elite). It also matters because the rest of academia is likely to follow where business schools have led.

Some business schools have built campuses on the other side of the world. INSEAD, a French school, has led the way. In 2000 it opened a lavish campus in Singapore with its own full-time faculty. Students can start their MBAs either in Singapore or in France and switch between the two countries. About 35-40% of students are "switchers" (who start their degrees in one campus and finish in another). Roughly as many are "swingers" (who spend at least some time abroad). Other big schools such as the University of Pennsylvania's Wharton School and the University of Chicago's Booth School have established campuses abroad for their executive-MBA programmes.

Schools that lack the cash or inclination to set up a campus abroad have other options. Many are hooking up with foreign partners with the randy enthusiasm of students on spring break. The China Europe International Business School (CEIBS) in Shanghai, for example, co-operates with Harvard Business School and Wharton to teach executive MBAs. Schools are also introducing "global experience requirements". The University of Michigan's Ross School of Business requires all first-year MBA students to spend seven weeks working abroad.

The world's best schools are globalising their intake, too. In 2008 some 34% of the students on America's leading 55 MBA programmes (as ranked by the *Financial Times*) were foreign, as were 85% of those on the top 55 courses in European countries (the figures for foreign faculty members were 26% for America and 46% for Europe). Lesser institutions are also internationalising. The UNESCO Institute of Statistics calculates that in 2007 almost a quarter of students who studied abroad studied business-far more than any other subject.

At the same time, emerging economies are building business schools at a furious pace. The Association to Advance Collegiate Schools of Business counts over 13,000 schools that offer business degrees in the world. China and India have 2,700 between them, almost all of them founded since 1990. In 1997 universities set up only 74 new business courses; in 2007 they set up 641. The best emerging-market schools are determined to go global (or at least regional) in their own right: CEIBS has increased the proportion of its students who are foreign from 10% in 2002 to 40% in 2009 and is hoping to create an Ivy League for the East.

The sudden globalisation of business education has drawbacks. The most obvious is quality control: the market is infested with snake-oil salesmen, and they are harder to spot from half a world away. Globalisation is also pushing up the already exorbitant cost of business education. It is expensive to send students abroad, conduct international research and compete for the best academics in a borderless labour market. Worst of all, globalisation means that management jargon, from "360-degree thinking" to "strategic staircases", spreads across borders like bird flu.

Business schools boast that mixing with people from different countries forces their students to broaden their horizons and question their assumptions. They exaggerate. Diversity of accent and skin colour do not necessarily mean diversity of worldview. Wherever they come from, global MBA students tend to be polyglot cosmopolitans. Mingling with other cosmopolitans on multiple continents may fool them into thinking that the world consists largely of people like themselves. It does not.

Nonetheless, the benefits of global business education far outweigh the costs. Business is globalising: the proportion of the world's largest 500 firms that hail from emerging markets has doubled in five years, from 8.2% in 2005 to 17.4% in 2010. Business schools have no choice but to follow suit. The best schools are spreading their high standards far and wide. Spain's IESE has helped to set up business schools in 15 other countries. China's CEIBS has founded a school in Ghana. Local schools usually adjust their curricula to local circumstances: the Moscow School of Management, Skolkovo, offers an MBA with an emphasis on coping with corruption. Globalisation increases choice: Singapore has only four purely local universities that offer business degrees but Singaporeans can choose between 70 international institutions that offer degrees locally through some kind of franchise.

More global, less American

As business education becomes more global, it is becoming less American. Until recently the field was dominated by American business schools teaching American examples. Now more than a third of the case studies taught in strategy courses in American universities feature foreign firms. And of the Asians who took the GMAT tests (which American schools use to choose their students), the proportion who then applied to study in America dropped from 85% in 2001 to 67% in 2009.

A global super league of business schools is emerging, which includes several in Europe and Asia as well as America. All compete ruthlessly for students and staff everywhere. (The leading gurus fly anywhere at the behest of the highest bidder.) The cult of the MBA is going global: from Boston to Beijing to Bangalore future masters of the universe are spending their formative years drinking, whether deeply or not, from the Pierian spring of management theory.

Economist.com/blogs/schumpeter

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IBM

1100100 and counting

The secret of Big Blue's longevity has less to do with machines or software than with strong customer relationships

THE long passage that connects the two wings of IBM's headquarters in Armonk gives a new meaning to the expression "a walk down memory lane". From punch cards to magnetic tapes and disk drives to memory chips, every means of storing information since the advent of modern calculating machines is on display, either as an exhibit or as a photo. Other relics of computing can be found in the building, an hour's drive north of New York City. Near the boardroom sits a desk-sized calculator with hundreds of knobs. Visitors can also wonder about a tangle of wires connected to a metal plate-an early form of software called a "control panel".

No other information technology (IT) company could boast such a collection and also claim to have built each of the items on display. The history of computing cannot be conceived without IBM, which celebrates its 100th birthday on June 16th. Remarkably, even though to many minds Big Blue, like the objects on show at Armonk, is a relic of the 20th century, the firm remains one of the IT industry's leaders. Its market capitalisation again almost matches that of Microsoft, its archrival for many years (see chart 1).

The firm's centenary is an occasion to reflect on many things digital, but one question stands out: why is IBM still alive and thriving after so long, in an industry characterised perhaps more than any other by innovation and change? This is not just of interest to business historians. As IBM enters its second century in good health, far younger IT giants, such as Cisco Systems, Intel, Microsoft and Nokia, are grappling with market shifts that threaten to make them much less relevant.

To grasp why it is so difficult for IT firms to stay on top, picture the computer industry as a never-ending enterprise to create digital "platforms", both large and small. These are the foundations on which others build software applications or services. Every ten years or so, a new dominant platform emerges to elevate computing to another level. First came mainframes. This was followed by "distributed" systems: mini-computers, personal computers (PCs) and servers. And now there are computing "clouds" and mobile devices.

Migrating from one platform to the next, explains Michael Cusumano, a business professor at the Massachusetts Institute of Technology, means questioning everything a firm stands for: the technical skills, the brand, how money is made. So big companies mostly try to defend their existing domains rather than to explore and conquer new ones. Microsoft, for instance, remains firmly attached to its Windows operating system (see article). Only a few have managed even one platform shift, let alone, like IBM, pulled off three. And either of its first two could have easily done Big Blue in.

Or should that be 1111101?

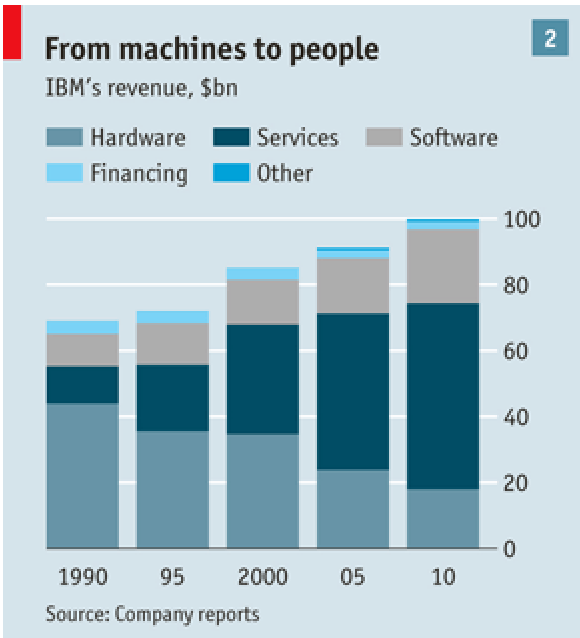
Official history notwithstanding, the company's true age is 125. In 1886 Herman Hollerith, a statistician, started a business to rent out the tabulating machines he had originally invented for America's census. Taking a page from train conductors, who then punched holes in tickets to denote passengers' observable traits (eg, that they were tall, or female) to prevent fraud, he developed a punch card that held a person's data and an electric contraption to read it. The technology became the core of IBM's business when it was incorporated as Computing Tabulating Recording Company (CTR) in 1911 after Hollerith's firm merged with three others.

The first platform shift became necessary when electronic "calculating machines" and magnetic tapes came along in the late 1940s. IBM's management, including Thomas Watson senior, who took the helm at CTR in 1915 when it had 400 employees and built it into a global force with tens of thousands, was hesitant. "You young folks remember, IBM was built on punch cards, and our foundation will always be punch cards," a veteran IBMer is reported to have said to one of the developers of the first tape-drive. Some say that it was only because Thomas Watson junior, who took over from his father in 1956, had made the new technology his cause that IBM fully embraced the electronic age.

Under the younger Watson, IBM became by far the world's biggest computer-maker. He did the trick by betting the company on the System/360, IBM's first family of mainframe computers, which took years and $5 billion (in 1960s dollars)-more than the Manhattan Project that led to the atomic bomb-to develop. Launched in 1964, the System/360 became the first dominant computing platform, mainly because all the family's machines, big or small, were "compatible", meaning they could run the same software.

By 1969 IBM's market share had grown to 70%. It thus became the first IT company to be called an "evil empire" and aroused the ire of America's antitrust authorities. The Reagan administration eventually dropped the case in 1982, asserting that it had been "without merit".

The second platform shift-from costly mainframes to "distributed" computing systems, including PCs-was a much closer shave. Even while the antitrust case was dragging on, technological progress had begun to undermine IBM's near-monopoly and, more importantly, its business model of renting its expensive machines to customers. Since this was highly profitable, IBM was very slow to deliver cheaper and distributed computing systems, made possible by new processors. When these systems took off in the early 1990s, IBM's business collapsed. Mainframe revenues dropped from $13 billion in 1990 to $7 billion in 1993 and losses of $16 billion piled up. "Only a handful of people understand how precariously close IBM came to running out of cash," wrote Lou Gerstner, who was brought in to turn the company around, in "Who Says Elephants Can't Dance?", his book about the revival. He fired 35,000 employees to cut costs.



Compared with that, the third (and continuing) platform shift is a doddle (see chart 2). IBM spotted sooner than many competitors that computing would increasingly become a service produced in vast data centres and delivered over networks, rather than something done on in-house desktops or mainframes. It also anticipated that such cloud computing would accelerate the emergence of "big data": huge piles of digital information that can be mined for valuable knowledge. Since 2005, for instance, IBM has spent $14 billion to buy two dozen firms offering all kinds of gear for "business analytics".

A big blue dancing elephant

So how has IBM done it? People who have been watching the company for a long time give similar answers. "From the beginning, IBM had a concept of itself as an institution, not just a technology company," says Rosabeth Moss Kanter, a professor at Harvard Business School and author of "SuperCorp", a book partially about IBM's prowess. "IBM is not a technology company, but a company solving business problems using technology," says George Colony, chief executive of Forrester Research, a consultancy.

This self-image was evident even in the older Watson's day. He renamed the company International Business Machines (in 1924) because he found the original name too limiting. He also invested a lot in research and allowed his scientists to roam widely, not least in electronics. Drawing on his experience at National Cash Register, his previous employer and a pioneer in these matters, he quickly established a well-trained sales force and, later, a service organisation. Both not only helped customers make the best use of IBM's products, but gathered valuable information about customers' needs. By the late 1940s their message was crystal clear: firms wanted faster computing, which only electronic computers could deliver.

However, these feedback channels had become seriously clogged by the time distributed computing emerged in the 1980s. The huge success of its mainframes had made the company "internally focused", in the words of Irving Wladawsky-Berger, a retired IBM technologist. IBM's internal communications had broken down, too: the company had become a collection of national fiefs, each with its own way of doing business and independent management. The firm had also diversified in all directions, including helicopter avionics and consumer online services.

Mr Gerstner-who joined IBM from RJR Nabisco, a food and tobacco conglomerate, and admitted to not knowing much about IT-managed to turn things around mainly because he was able to put IBM's old DNA to a new purpose. His bet was that in the confusing world of distributed computing, with its many moving parts, firms would need not only the right tool but also trusted advisers. So he turned IBM's service organisation, hitherto a sub-unit of the salesforce, and its software business, until then part of the hardware division, into standalone businesses. Thus the old IBM, which sold integrated mainframes, gave way to a new one. Its raison d'etre is to help customers manage their electronic jungles, explains Steve Mills, head of IBM's software business, which has sales of $22.5 billion. That is only a few billion less than Oracle, the world's second-biggest software firm (the biggest is Microsoft).

Mr Gerstner and Sam Palmisano, who succeeded him in 2002, also took less visible measures to avert another brush with oblivion. The first aim was to maintain IBM's connections to its customers. Today the main conduit is the huge services organisation, which employs more than half the total workforce of nearly 427,000. It often "co-creates" products with customers, says Bridget van Kralingen, the firm's general manager for North America. With the state of New York, for instance, IBM developed a method of detecting tax evasion, which it claims has saved taxpayers $1.6 billion since 2004.

Second, IBM has become much less hierarchical and more open. Its Smarter Planet initiative (which is intended to inject more intelligence into, say, power grids and transport systems) is said to have originated in one of IBM's "jams", online brainstorming sessions where all employees and sometimes even family members are welcome. And whereas the old IBM made, sold and jealously guarded its own technology, the new one champions open standards and open-source software. This makes life easier for its services unit.

Third, IBM tries to ensure that the output of its 3,000-strong research division remains relevant to its business. Researchers are regularly embedded with teams from the services unit to give them on-the-ground experience. Sometimes they co-operate with customers, for example in creating a system that constantly monitors the vital signs of newborn babies to indicate when they acquire an infection. They are also prodded to look ahead, explains Robert Morris, who helps devise the firm's research strategy. Once a year, they must produce a "Global Technology Outlook", an attempt to spot important trends early.

Fourth, IBM is no longer a collection of independent national subsidiaries, but a globally integrated company. It has a common IT infrastructure, which allows it to use the same accounting, procurement and other business processes all over the world. Code developed by services teams is shared too: whenever they start a new project, one of their first steps is to log on to a service called AssetHub, a global repository for software building-blocks. Staff are trained to work in global and often virtual teams. In one programme, Corporate Service Corps, every year about 500 staff volunteer to spend a few weeks in small groups in developing countries working on specific problems, such as advising the city of Rio de Janeiro how best to fulfil its pledge to use sustainable technologies for the 2016 Olympic games.

The last bit of insurance against disaster is financial planning. One rule is to ditch businesses that are about to become commoditised and no longer yield a sufficient profit margin. This is why IBM has since 1999 sold half a dozen businesses, including PCs and printers. It is also why in 2002 it bought the consulting arm of PricewaterhouseCoopers, an accounting firm, and is constantly trying to push its services business into higher-value territory and even created something called "services science" to study ways to automate them.

IBM has a financial "roadmap" telling investors how profitable it intends to be in the next five years and how it will get there. By 2015 the firm wants its earnings per share almost to double, to "at least" $20. The roadmap also helps, according to Mark Loughridge, the chief financial officer, "to keep the same level of intensity" as during the near-death experience of the early 1990s. "If you ask executives about the roadmap 2015, they can tell you immediately how their plans are lined up to that longer-term goal," he says.

When I'm 64 (in hexadecimal)

IBM, 100 years after its incorporation, appears to be fairly well in control of its destiny. Yet its history can be read as the result of business constraints as much as of managerial genius. From the beginning, as a maker of complex machines IBM had no choice but to explain its products to its customers and thus to develop a strong understanding of their business requirements. From that followed close relationships between customers and supplier.

Over time these relationships became IBM's most important platform-and the main reason for its longevity. Customers were happy to buy electric "calculating machines", as Thomas Watson senior insisted on calling them, from the same firm that had sold them their electromechanical predecessors. They hoped that their trusted supplier would survive in the early 1990s. And they are now willing to let IBM's services division tell them how to organise their businesses better.

The human platform has an important drawback: it is expensive to maintain and to extend, says Carl Claunch of Gartner, a market-research firm. That also means, however, that it is costly for others to replicate or invade. And given the complexity of the world and how much of it is still to be digitised, IBM's human platform looks unlikely to reach its limits soon. Perhaps not for another 100 years.

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Microsoft

Middle-aged blues

The software giant is grappling with a mid-life crisis

COMPARED with IBM, Microsoft is a mere stripling. Founded in 1975, it rose swiftly to dominate the world of personal computing with its Windows operating system and Office suite of word-processing and other productivity tools. But the company is now showing some worrying signs of middle-age fatigue. In particular, it is struggling to find a growth strategy that will enthuse disgruntled shareholders.

Grumbles are understandable. Since Steve Ballmer took over from Bill Gates as chief executive in 2000, Microsoft's share price has languished and the company has lost its reputation as a tech trend-setter. It has been left behind in hot areas such as search and social networking by younger companies, some of which love to thumb their noses at their older rival. Eric Schmidt, the executive chairman of Google, recently proclaimed that leadership in the tech world had passed from Microsoft and others to a "Gang of Four" fast-growing, consumer-oriented businesses: Google, Apple, Amazon and Facebook.

Few would quibble with that. The question is: what, if anything, can Microsoft do to change it? In at least some respects, the company appears to be suffering from similar ailments to those that laid IBM low before Lou Gerstner was hired in 1993 to get it back on its feet. These include arrogance bred of dominance of a particular area-mainframe computers at IBM, personal computers at Microsoft-and internal fiefs that hamper swift change. For instance, the division that champions cloud computing must deal with one that is the cheerleader for Windows, which is likely to want computing to stay on desktops for as long as possible to maximise its own revenues.

As IBM's experience shows, rejuvenation in the tech world is possible. And some observers see encouraging glimmers of progress at Microsoft. Sarah Rotman Epps of Forrester, a research firm, reckons that Windows 8, a forthcoming version of Microsoft's operating system, could be a serious competitor to Google's Android on tablet computers if the company can get it to market next year. Microsoft is also in far better shape financially than IBM was at its nadir, so it can afford to splash out on acquisitions such as its recent $8.5 billion purchase of Skype, an internet-phone and video-calling service.

That bet and an alliance with Nokia in mobile phones (putting the phone version of Windows into the big but troubled Finnish firm's devices) show that Microsoft is trying to bulk up in promising areas. Yet sceptics worry that such initiatives are not the product of an overarching strategic vision, but are instead tactical moves designed to placate critics who fear Microsoft is drifting downwards. David Einhorn, a prominent hedge-fund manager whose fund holds shares in Microsoft, has publicly called for a change at the top of the firm, arguing that Mr Ballmer is "stuck in the past". So far, the company's board, chaired by Mr Gates, has backed its chief executive. But if IBM's history is a guide, Microsoft may yet end up jettisoning its leader.

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Indian banks

The pendulum swings again

China's banking system is not a good model for India

DURING India's long experiment with socialist economics after gaining independence in 1947, many big industrial houses managed to survive as recognisably private firms. Banking, though, got it in the neck. "Major banks should be not only socially controlled, but publicly owned," Indira Gandhi, the then prime minister, announced on All India Radio in 1969. Nationalisation followed.

Today, after 20 years of liberalisation, state-run banks can sometimes look like they are in terminal decline. Some branches are literally rotten, their concrete walls covered in slime and window bars rusted. Yet the reality is quite different. The state sector still controls three-quarters of deposits, and since the financial crisis its share has crept up (see chart).

In 2008 and 2009 foreign banks, burned by bad consumer loans and shaken by events elsewhere, withdrew credit. Some private Indian banks slammed the brakes on, too, including the largest, ICICI, which faced rumours of insolvency-scurrilous, as it turned out, but gleefully repeated by at least one state-bank boss at the time. The public banks, meanwhile, and in particular State Bank of India (SBI), which has a fifth of the market, had an influx of deposits and undertook a lending splurge. SBI's balance-sheet doubled between March 2007 and March 2011.

SBI insists that its expansion did not reflect a Chinese-style, government-directed effort to offset the global slump. Yet although they remain tiny compared with Chinese giants like ICBC and China Construction Bank, there is often more than a whiff of Beijing about the Indian state lenders. Their loan books are skewed towards more socially worthy projects; their bosses' pay is modest; and they have a hybrid status as firms that are listed but have the state as a majority shareholder.

The crisis led to a reddening of attitudes across the industry. The requirement that banks must hold up to about a quarter of their deposits in government bonds was no longer denounced as a racket to help fund the budget deficit but instead hailed as an enlightened form of liquidity management. The Reserve Bank of India (RBI), the central bank which regulates banking as well as setting interest rates, made clear its view that India's approach was superior to the discredited Western models that it had long been told to adopt. It seemed as if India's state-dominated system might not be a staging-post towards full liberalisation but instead the end destination.

Yet recently things have shifted again. In May SBI's new chairman announced dire results, with lower lending margins, provisions for pensions and extra charges taken against its loans. The hit, including forfeited profits, was some $2.5 billion, equivalent to over a tenth of the bank's equity. Since its capital ratios are too low to support fast growth, SBI needs to raise more equity. That means persuading the government, which does not want its 59% stake diluted, to stump up: not an easy task.

With rates rising and the economy slowing, some fear more bad debts could emerge at the state banks that lent freely during the downturn. Meanwhile the private banks seem perkier, with their share of loans beginning to rise. ICICI's chief executive, Chanda Kochhar, says that after two years of building more branches to suck in sticky deposits, the bank is "in a happy situation" and ready to start increasing credit again. Aditya Puri, the boss of HDFC Bank, which remains the darling of investors thanks to its metronomic performance, plans to keep expanding quickly, too. Other financial firms with banking licences, such as Kotak Mahindra, have been shifting towards the lending business and away from capital markets where profitability has fallen, partly thanks to a rush of foreign investment banks into India.

Two reforms being flirted with by the RBI could make things more competitive. The first would offer foreign banks a deal by which they create proper subsidiaries in India (which should be easier to regulate) and direct more lending to priority areas such as agriculture. In return they will be allowed more branches. One foreign-bank boss reckons that India, much

like China, will never allow foreign firms more than a 10% market share, but that would still be almost double current levels. Another is more optimistic, saying that the RBI's stance is a "huge step".

The RBI is also considering granting new banking licences to Indian-owned firms. There is some scepticism about the process. One Mumbai financial bigwig jokes that two licences will be granted-one, by the RBI, on the basis of competence, and the other by politicians in Delhi on the basis of bribe size. Still, the result should be an increase in the number of banks. India could end up allowing industrial conglomerates to own banks. That would put it at odds with most countries, where mixing business and banking is considered toxic, but would mean new entrants with financial muscle (although the butchest conglomerate of them all, Reliance Industries, said on June 3rd that it would not seek a licence).

Over the next year private banks will almost certainly win back market share. Farther out, the Beijing model of banking is in any case probably beyond the capacity of the cash-strapped Indian state. Loans are only about a third of India's GDP compared with over 100% in China. The private sector will be needed to provide the capital to support more credit. Nor can India seal off its financial system to the same extent as China. Its businesses are internationalising faster, and its persistent current-account deficit and bad infrastructure mean it badly needs foreign investment.

As a matter of both preference and necessity, then, Indian's banking system will become more linked with the world. Its resilience during the crisis partly reflected its competence, but also its insularity and underdevelopment. But if India's economy is to rival China's by size, its financial sector needs to become less, not more, like the Middle Kingdom's.

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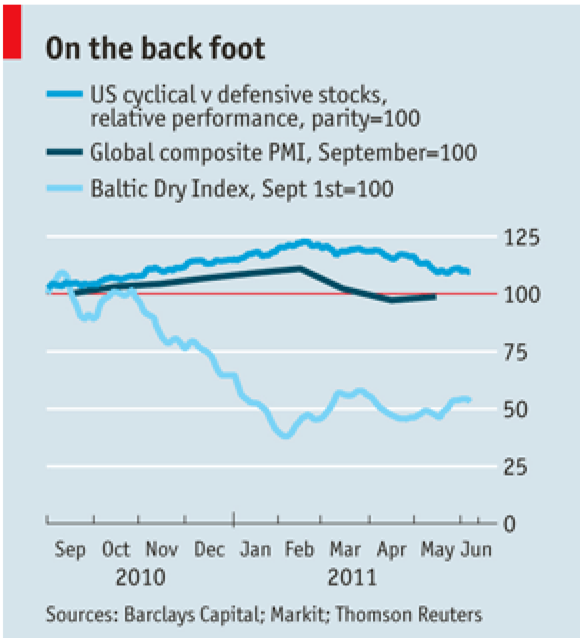
Buttonwood

Queasy feeling

The equity markets are struggling in the face of slower growth and central-bank inaction

THE cavalry may not ride to the rescue this time. Equity investors have been relying on the Federal Reserve for support ever since the American central bank presaged a second round of quantitative easing (QE) last August.

In a November article for the *Washington Post*, Ben Bernanke, the Fed's chairman, acknowledged the impact of QE on shares, stating that "higher stock prices will boost consumer wealth and help increase confidence, which can also spur spending. Increased spending will lead to higher incomes and profits that, in a virtuous circle, will further support economic expansion." But with the current round of QE about to end, Mr Bernanke gave no hint that a third programme was on its way in a keenly awaited speech this week, acknowledging merely that "economic conditions are likely to warrant exceptionally low levels for the federal-funds rate for an extended period."



The speech was a further disappointment for global stockmarkets, which have been declining fairly steadily since early May. Indeed, the mood may have changed even earlier. "Defensive" stocks (businesses like utilities and food retailers, where consumer demand is relatively resilient) started to outperform cyclical businesses in February (see chart). That shift was probably in response to a downturn in the results of purchasing managers' surveys of business confidence. Ten-year Treasury-bond yields peaked at around the same time.

The eagle-eyed may have seen the bad news coming earlier still. The Baltic Dry Index, a measure of shipping rates and an indicator of global trade activity, started to turn down late last year.

There are two possible explanations for these signs of slowdown. The first is that this is a soft patch caused by temporary factors such as the high oil price and the disruption that followed the Japanese earthquake in March. Japanese production is now returning to normal; oil is only a little off its peak but would be expected to fall further if economic weakness continues. By itself, that might spur a rebound in activity in the second half of the year.

The alternative, less palatable thesis is that the stimulus delivered by central banks and governments since late 2008 and early 2009 is now starting to fade. The authorities are running low on ammunition, as Mr Bernanke has in effect admitted. There appears to be little political appetite for a further round of fiscal stimulus or easier monetary policy. In Europe the emphasis has shifted to fiscal austerity and the European Central Bank has started to push up interest rates.

All along this rally has been dogged by a contradiction. Equity investors have attempted to act as if this is a normal recovery but central banks have behaved as if they were still extremely worried, keeping rates at record low levels. That created two potential challenges for the bulls. Either their economic optimism would prove correct, in which case the stimulus would have to be rapidly withdrawn, or the caution of the central banks would turn out to be justified and profit forecasts would have to be revised lower.

On this point, the evidence is mixed. In America first-quarter profits generally beat expectations and forecasts for the full year were moved higher. According to HSBC, analysts are now looking for 17% earnings-per-share growth, up from 14% at the start of 2011. In Europe full-year estimates for earnings-per-share growth have started to be revised downwards, albeit to a still-high rate of 13%. Anyone relying on such estimates should be warned that analysts are normally over-optimistic and terrible at spotting turning-points.

Robust profits have been, along with Fed policy, a stout source of support for share prices. But they are linked to an increase in margins (ie, a higher share of GDP for profits than for wage-earners) that has made this a much rosier recovery for Wall Street than for Main Street. Profit margins tend to revert to the mean over the long term, in part because high returns attract new market entrants. Paul Marson of Lombard Odier, a private bank, says that "over the next five years, current elevated margins imply negative nominal net profit growth."

The American market is hardly priced for such an outcome. On the best long-term measure, the cyclically adjusted price-earnings ratio, Wall Street is trading on a valuation 43% above its long-term average, according to the website of Yale University's Robert Shiller. The bulls will have to hope that Mr Bernanke can be persuaded to change his mind.

Economist.com/blogs/buttonwood

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America's bail-out maths

Hard-nosed socialists

America's loathed TARP may turn a profit. That could be a problem

Correction to this article

THE federal government is bowing out as America's most hated fund manager. On June 3rd the Treasury reached an agreement to sell the rest of its holdings in Chrysler, a carmaker, to Italy's Fiat. Ten days earlier it began to sell its stake in American International Group (AIG) through a public offering of the insurer's shares. General Motors has returned to the stockmarket (the government still owns 26% of it) and Ally Financial, a former financing arm of GM and Chrysler, will soon follow. In March the Federal Reserve began selling mortgage-backed bonds it inherited from AIG.

Nobody liked the bail-outs, not even the rescued. Tim Geithner, who oversaw them first at the New York Federal Reserve and now as treasury secretary, this week quipped to bankers: "I'm glad to not have as much equity in all of you as a group anymore." "So are we," one shot back. The public was the most outraged, yet on a narrow reckoning of profit and loss, taxpayers have little cause for complaint.

When Congress held its nose in 2008 and approved the Troubled Assets Relief Programme (TARP) to spend up to $700 billion to alleviate panic, the White House reckoned it might end up losing half of that amount. In the end $411 billion was ploughed into financial firms, carmakers and schemes to reduce foreclosures and restart private lending. As of June 7th $308 billion of that had been paid back. The Treasury values the remainder at $130 billion but could quite plausibly garner more. In that case it will turn a cash profit on TARP, although the picture would be worse if the Treasury's subsidised lending rates are also counted as a cost.

Active management

Federal bail-outs since 2008, $bn

Company	Investment/ loan amount	Gov't profit/ (loss)
Fannie Mae & Freddie Mac	162.4	(138.3)
General Motors	51.0	(12.5)*
AIG (Treasury)	67.8	(3.8)*
Chrysler	12.5	up to (1.3)*
Bear Stearns assets	28.8	2.8*
Bank of America	45.0	4.6
Citigroup	45.0	12.4
Other banks	154.5	12.4*
MBS purchases (Treasury)	225.0	13.0*
AIG (Federal Reserve)	43.8	16.9*

Sources: US Treasury; Federal Reserve; *The Economist*

*Based on latest fair-value or Treasury estimates

The Treasury will take a small loss on Chrysler. It is modestly in the red at current market prices on General Motors and AIG (see table). But those losses are more than made up for by profits on banks and the Federal Reserve's portfolios of assets from Bear Stearns and AIG. The Fed has also recorded a handsome profit on its emergency-lending programmes to healthy banks, as did the Treasury on its purchases of mortgage-backed securities and, so far, the Federal Deposit Insurance Corporation on bank-loan guarantees.

The big black hole is housing. The Treasury has so far recorded a loss of $138 billion on Fannie Mae and Freddie Mac, the gigantic mortgage agencies it rescued in the summer of 2008. Data from the Congressional Budget Office that include the implicit subsidy yield a cost through 2021 of $365 billion or more. Actual cash outlays will be lower: the White House reckons the agencies will make money in the next decade, cutting the final bill to just $73 billion.

Either way, the direct bill for America's crisis-era rescues is likely to be remarkably small or to show a profit. America's experience is not unique: Britain estimates its interventions will eventually earn pound3.4 billion ($5.6 billion) and Switzerland reckons it has made a $4.2 billion profit so far on its support for UBS. But it is impressive: the IMF puts the average cost of international bail-outs at 13% of GDP.

The government's returns largely reflect market illiquidity during the depth of the panic in 2008. This meant that the Treasury and the Fed bought stakes at fire-sale prices. They helped their cause by playing hardball on the prices they paid and by undertaking stress tests and stimulus measures that speeded the healing of the financial system. Replicating such conditions in ordinary times would be impossible.

Yet in their zeal to protect the taxpayer, American policymakers may have done too little. The Treasury earmarked some TARP funds to refinance homeowners facing foreclosure. But the backlash against bail-outs was so intense that it attached stringent conditions that deterred participation. Of the $46 billion allocated, less than $2 billion has been spent, one reason why the housing market remains so weak. The interventions succeeded at stemming the crisis. They have been a failure at spurring a decent recovery.

Correction: Britain's bail-out interventions are expected to earn pound3.4 billion, not the pound2 billion we originally reported. This was corrected on June 10th 2011.

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The OPEC meeting

Drill will

Disharmony at OPEC breeds uncertainty over the oil price

FOR an organisation committed to "co-ordinating and unifying" the policies of its members, the lack of harmony on display at the twice-yearly OPEC meeting in Vienna on June 8th was rather unfortunate. The seating arrangements may not have helped: the representatives of Libya and those of Qatar-which is backing rebel forces in their battle against Colonel Qaddafi-were side by side.

Rather than reading from an official communique, OPEC's secretary-general, Abdalla el-Badri, admitted that after a "thorough debate" on the oil markets the group had been "unable to reach a consensus" between those countries wanting a production increase and those happy to do nothing. Hardly fighting talk but an unusual admission that not all was sweetness and light. The news that OPEC production quotas would not budge immediately sent oil prices upward.

Rumours circulated that Saudi Arabia had walked out. The lack of agreement counts as a defeat for the kingdom, which had wanted to signal that more oil would be available to a market where a barrel of Brent crude now fetches $118 compared with an average of $80 in 2010.

Many thought that quotas might at least be adjusted to take account of reality. In May OPEC pumped 29m barrels a day (b/d) of oil (including Iran, which is not in the quota system) whereas official quotas, last formally changed in 2007, stand at 24.8m b/d. Others expected OPEC to agree to pump up to 30.5m b/d to tame prices.

But OPEC is split into two camps, those with spare capacity (of which Saudi Arabia controls 70%) and those that cannot pump any more oil. The first camp worries that the lofty bill for a barrel of oil is damaging the world economy and a further price spike could destroy demand. Countries in the second camp, such as Iran, are happy with the high price and do not want more oil to get onto the market.

Mr el-Badri accepted that members had disagreed over data on supply and demand. The numbers are not clear-cut. Although the International Energy Agency, an energy consumers' club, has said that demand will grow by 1.3m b/d this year (after rising by an amazing 2.8m b/d in 2010; see article), there are signs that high prices are having an effect. Oil use in rich countries shrank by 2.8% in March compared with a year ago; growth in emerging markets slowed to 4%.

As Bill Farren-Price of PPI, a consultancy, points out, it is more informative to watch what Saudi Arabia does than what OPEC says. OPEC supply is down by 1.3m b/d since Libya's oil disappeared from the market. The Saudis have already pledged to fill that gap and have made crude available. They may be tempted to go it alone and pump even more oil in order to keep prices in check before a rise in seasonal demand. If consumption is already on the wane, however, new supply could see prices tumble, at least temporarily. That would not improve the mood when OPEC next gathers in December.

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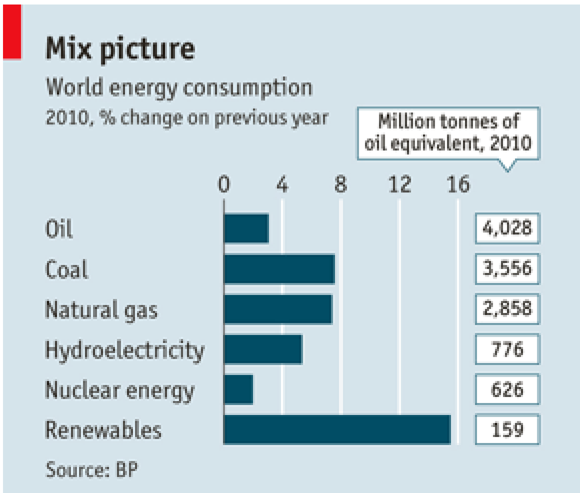
BP's energy review

Bouncing back

New figures show extraordinary growth in energy use last year

GLOBAL oil production posted its biggest increase since 2004 last year but it was a relatively weak performer in a bumper year for energy growth, according to BP's latest annual Statistical Review of World Energy. Although oil production grew by 2.2% in 2010, oil consumption grew by 3.1% and energy demand across the board shot ahead by 5.6%, the biggest annual gain since 1973.



Growth was above its long-term trend in every region of the world and almost every fuel reached record levels of use (see chart). Coal consumption grew by 7.6%; gas by 7.4%; hydroelectricity by 5.3%; other renewables by 15.5% (though from a titchy base). The only fuel not consumed at record levels was uranium: although nuclear power grew a little, it still fell short of its 2006 level, a high-water mark which, after the Fukushima disaster in Japan, looks set to stand for some time.

Part of this is cyclical. As Christof Ruhl, BP's chief economist, notes, energy demand tends to fall faster than GDP when things go wrong, and grows faster when the situation improves. That is because energy responds to changes in investment, industrial production and transport, which rise and fall by more than the economy as a whole.

This helps explain why energy consumption handily outstripped 2010's 4.9% growth in global GDP. But there is also a structural change at work. Economic activity is growing faster in developing countries, in general less efficient energy users, than in developed ones. Even if global GDP were static, this shift would increase consumption.

Growth in developing countries is the main reason why coal consumption rose so much. The wealthy countries of the OECD still consume more oil than the rest of the world, but non-OECD countries use 69% of the world's coal-two-thirds of that in China. This is a big part of the reason why energy-related carbon-dioxide emissions have been growing even faster than energy use. In 2010 they grew by 5.8%-the highest rate since 1969.

The fuel that gets people most excited, though, is natural gas. The boom in American shale gas-it now represents 23% of that country's gas production, up from 4% five years ago-has kept the price low in America, inspired exploration for similar fields elsewhere and allowed liquefied natural gas (LNG) production originally intended to serve America to seek other markets. Over the past five years global production capacity for LNG has increased by 58% and its share of the international gas trade has risen from 23% to 31%, helping the world to shift towards more integrated and flexible markets: the average number of markets served by each gas exporter has risen from five to nine. An extrapolation of these trends published by the International Energy Agency on June 6th showed gas's share of energy provision overtaking coal's in less than 20 years.

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Listed Chinese companies

Red alert

Scepticism about the accounts of Chinese companies spreads

MUDDY WATERS, indeed. Concerns about fraud among Chinese companies listed in North America gained more traction on June 2nd, when a short-seller of that name accused Sino-Forest Corporation, a Toronto-listed forestry firm, of inflating its assets, among other things. The Chinese firm robustly denies the allegations; other research firms have come to its defence, although not before a precipitous fall in its shares.

Similar charges have been laid in the past against Chinese firms listed in America and Singapore. The sheer number of allegations raises an obvious question: if concerns are rife in places where there is lots of scrutiny, how bad might things be in Hong Kong, the largest market for overseas Chinese listings, and on the mainland?

The optimistic argument is that the markets that have been at the heart of the allegations have particular vulnerabilities. There is some truth to this explanation, says John Hempton of Bronte Capital, an Australian hedge fund. Lots of Chinese firms have used "reverse mergers", in which a private company goes public by combining with a listed shell company, to float in America. That allows firms to avoid some of the scrutiny that comes with an initial public offering (IPO).

Hong Kong was once a popular location for reverse mergers, too, but the practice has been discouraged over the past decade. To list in Hong Kong means having to show three years of profits and then to survive reviews by a listing department of the local stock exchange and an independent listing committee. For Chinese companies, approval by the government in Beijing is usually required as well. At the very least it means most firms listed in Hong Kong are real businesses, says Mr Hempton.

That is not to say there are no problems. The Securities and Futures Commission, the territory's primary regulator, released a report in late March on the role played by 17 investment banks in IPOs and provided examples of sloppy due diligence, poor disclosure, failures to interview key customers (critical for confirming sales and revenues) and inadequate scrutiny of potentially illicit operations.

Hong Kong also relies on local and Chinese accounting firms to do audits of Chinese firms. Even with the best of intentions, an explosion in the number of Chinese companies looking to list means there are not enough qualified auditors to do the work. Many experienced observers wonder whether intentions are always the best to begin with.

Making auditors' work more difficult are the judgment calls tied to marking assets to market, particularly when the asset involved is property and the markets are either opaque or subject to easy manipulation by local Chinese municipalities. Investors take some confidence that companies listed in Hong Kong operate under established law, but it is not at all clear how much access regulators or analysts have to assets listed in China. Chinese visa restrictions impede scrutiny by the press.

If problems arise the rules in Hong Kong do not allow class-action lawsuits and there is almost no shareholder litigation. A huge business in private financing exists in Hong Kong, often tied to promised public offerings. When losses occur participants are left to stew silently.

A few Hong Kong-listed firms are already under the media spotlight. Following a sceptical report on May 25th in *Next Magazine* about the amount of land held by Chaoda Modern Agriculture, the company's share price has lost almost a third of its value. Chaoda denies wrongdoing. But many expect that enough other cases will emerge to keep prosecutors and short-sellers busy for years.

Allegations of fraud have been fairly rare in China itself. Mr Hempton attributes this to a difference in the risks involved in cheating the markets. A Chinese manager of a dodgy company listed in America is probably beyond the reach of prosecutors; that's not true of Shanghai-listed companies. Another reason may be less diligence: short-sellers, who often act like detectives sniffing out problems at companies, are banned in China. The most benign explanation is the gauntlet of government approvals a company needs to run to list on the two primary mainland exchanges, in Shanghai and Shenzhen. The process cripples the flow of capital to fast-growing businesses, and may feed corruption because of how important relationships are to approvals, but it may-may-also filter out frauds.

In the meantime, doubts over how to separate bad from good hurt everyone, the blameless and the scammers. This is particularly true of ChiNext, a second Shenzhen exchange for start-ups, where companies that used to rise in unison are now all falling together.

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Honduras's indebted economy

The cost of a coup

The country's financial woes will last longer than its political ones

AMONG the unexpected problems caused by a coup in Honduras in 2009 was a reeking shrimp mountain. In the days after the army's ousting of Manuel Zelaya, the president, a strict curfew stopped traffic circulating after dark. This disrupted the transport of shrimps (Honduras is Latin America's second-biggest exporter) from the Pacific, where they are caught, to the Caribbean, from where they are exported. Hence the stench.

The shrimp trade is back in business and Mr Zelaya is back in the country, though now in opposition. His return paved the way for Honduras this month to rejoin the Organisation of American States, a regional group that suspended it after the coup.

If Honduras's political rehabilitation is complete, its financial recovery is not. It is the third-poorest country in mainland Latin America in terms of GDP per head, and is heavily reliant on foreign help. In the six months between the coup and the election of Porfirio Lobo, the current president, the aid tap was turned off. In 2009 the country lost out on $320m in grants and credit, says Humberto Lopez of the World Bank. Its public debt rose from 19.8% of GDP in 2008 to 26.3% in 2010.

Paying back those loans will now be a brake on Honduras's recovery. Most of the debt racked up during the coup was domestic (this rose from 4.8% of GDP in 2008 to 13% in 2010). That comes at a cost far higher than the interest-free World Bank loans that the government is accustomed to. Worse still, these debts had maturities of between one and three years, rather than the World Bank's generous 30-year terms. Even after two voluntary bond conversions this year, extending maturities to between three and seven years, repaying the principal of the domestic debt alone will cost Honduras 1-2% of GDP each year until 2015, Mr Lopez says.

The country of 8m is fighting back hard against its "unjust strangulation by the rest of the world", says Luis Larach, head of the chamber of commerce in San Pedro Sula, a northern export powerhouse that generates two-thirds of the country's GDP. Honduras is the fifth-biggest exporter of clothes by volume to the United States, and the biggest bar none of cotton socks and underwear. A decent transport infrastructure, first installed by the American banana men half a century ago, helps to speed the hosiery to market. Call centres, the latest business wheeze, benefit from being in the same time-zone as America and can hire from a large pool of English-speaking locals. There are distant plans for a railway to connect the coasts.

But big projects like that will move more slowly thanks to the country's hefty repayment burden. Foreign investors could help. Last month San Pedro Sula staged a jamboree called "Honduras is open for business", to lure them in. In the meantime, much depends on underwear and the sweet smell of American feet.

Economics focus

Pride or profit

How much financial risk has the ECB taken on as a result of the euro debt crisis?

CENTRAL bankers are not meant to be quotable. When it comes to the euro-zone debt crisis, however, you can rely on European Central Bank (ECB) board members for a colourful soundbite. A Greek debt restructuring would be "suicide", said Lorenzo Bini Smaghi, an Italian board member, last month. Jurgen Stark, the ECB's chief economist, has blamed Anglo-Saxon "vested interests" for market chatter over restructuring. Such vehemence is striking. Some wonder whether the ECB's own exposure to struggling peripheral economies explains it. If the likes of Greece were to default, after all, the ECB and its constituent national central banks (NCBs) would be in the financial firing-line. A report by Open Europe, a think-tank, this week warned of a "potentially huge" risk to taxpayers "buried in the ECB's books".

The ECB has made no secret about two ways in which it is exposed. First, it has let banks of troubled euro-zone economies borrow as much as they need through its refinancing operations, even if the collateral on offer, such as government debt, is rated below investment grade. Its argument for accepting dodgy collateral is that ratings are irrelevant as long as countries retain the lifeline of official bail-out money: the IMF trumps the markets.

Another openly declared operation has been the ECB's purchases of government bonds of the three afflicted countries (Greece, Ireland and Portugal) in the secondary market. This "securities markets programme" (SMP) began in May 2010 to try to beat back market pressures on Greece, even though it meant the ECB backtracking on its insistence that it would never go down this route. By early June the ECB had made purchases worth euro75 billion ($110 billion), of which euro45 billion is reckoned to have been Greek government debt.

Original Sinn

Has the ECB also become exposed to peripheral economies in a third way? Hans-Werner Sinn, head of the Ifo Institute for Economic Research in Munich, says there has been a "secret bail-out" via the ECB that puts German taxpayers at risk. This does not appear on the ECB's balance-sheet but on those of the 17 NCBs of the euro area, which together with the ECB make up the Eurosystem. The NCBs in the Eurosystem settle payments between one another through their "Target2"

accounts. The resulting bilateral positions are then consolidated daily into one at the ECB for each national bank. Because these balances pretty much cancel each other out across the euro area, the ECB's own balance-sheet, showing the overall net position, is unrevealing.

Before the financial crisis, there wouldn't have been much to see at the level of the individual NCBs, either. Even though countries like Portugal and Greece were running big current-account deficits, requiring offsetting capital imports, these were met through private credit inflows. But since 2007 the central banks in the debt-afflicted countries have had to borrow a lot from those in the north, especially the German Bundesbank. Ireland's Central Bank, for example, owed other national central banks in the Eurosystem euro145 billion at the end of 2010, much of it to fill holes left by capital flight from its banking system. In total debtor NCBs owed creditor NCBs roughly euro450 billion; the German central bank alone is owed euro326 billion.

How vulnerable is the ECB? Altogether it is supplying banks in Greece, Ireland and Portugal with euro210 billion of funds through its refinancing operations. Ireland's Central Bank is also providing around euro50 billion in "emergency liquidity assistance", but at its own risk. The ECB's exposure is hefty, but the collateral it takes is marked to market on a daily basis and extra margin is demanded if prices fall. A range of "haircuts" is also imposed to provide further protection. Of the various ways to restructure Greek debt, the most drastic (and least likely) would be to reduce its par value by 50%, bringing it down close to current market values for ten-year bonds. Even in this eventuality the ECB should still be covered, says Laurent Fransolet, an economist at Barclays Capital.

How worrying are the holdings of government bonds through the SMP? Even though these bonds have generally been acquired at points of weakness, market prices have kept falling over the past year. Losses on the Greek holding in the programme from a 50% restructuring could be euro18 billion, according to Barclays Capital. However, these would be split across the Eurosystem as a whole, with the ECB itself bearing only 8% of them.

As for the third form of support, identified by Mr Sinn, this is essentially just a way of describing the ECB's refinancing operations by highlighting the positions being built up by the NCBs. As Greg Fuzesi, an economist at J.P. Morgan, points out, the Bundesbank loans reflect the fact that the peripheral economies are starved of private-capital inflows and reliant on ECB funding. The ECB insists that the intra-euro debts incurred by the central banks of countries like Greece and Ireland are simply book-keeping entries so long as the countries remain in the euro area. Any losses would again be shared among the NCBs of the Eurosystem.

If a Greek restructuring were to happen and trigger losses, the ECB has a capital cushion of just over euro5 billion, which is due to rise to euro7.5 billion by the end of 2012. That may look thin given the potential for the euro-zone crisis to spiral beyond Greece. But the ECB is owned by the 17 euro-area NCBs, and the combined capital of the Eurosystem was worth over euro80 billion at the start of June.

On the face of it, then, the ECB should be able to withstand losses arising from a default, even if it needed further recapitalisation by its NCBs. Its vehement objections to a restructuring may be as much about credibility as its assessment of the risks it faces. It intensely dislikes the label some give it of the euro area's "bad bank", a dumping-ground for dubious securities. The ECB's campaign against restructuring springs more from worries about its authority rather than its capital.

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Economics writers

The Economist is looking to expand its team of economics writers. The successful candidate will combine a strong technical background with the ability to write simply and entertainingly about the dismal science in general, and the nexus between economics and business in particular. The position will involve co-ordinating *The Economist*'s online economics

coverage as well as contributing to the print edition. Applicants should send a copy of their CV along with a 500-word article that could be published in this section to economicsjob@economist.com by June 24th.

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Cancer therapy

Taking aim sooner

If personalised medicine is to achieve its full potential, it should be used earlier on in clinical trials

ONE of the prospects supporters of the Human Genome Project held out was personalised medicine. Knowing which genes were involved in a particular patient's disease would allow drugs to be deployed with greater precision. That is starting to happen in the field of cancer. Several targeted therapies, aimed at specific cancer-causing mutations, including Gleevec for chronic myelogenous leukaemia and Herceptin for some types of breast cancer, have been spectacularly successful. Yet in most cases of cancer doctors still base their treatment on where in the body a tumour has sprung up, rather than on which molecular aberrations have caused it.

The same is true of medical researchers recruiting volunteers for clinical trials, especially those known as phase I trials, in which a new drug is tested on people for the first time. Participants in such trials are often those whose tumour has spread beyond its original site, and will probably prove fatal. Usually, they have tried all proven therapies, to no avail. Their precarious condition means they are rarely accepted for phase II and III trials, which are more complicated and extensive.

Oddly, though, even if the drug being tested is a targeted therapy the tradition in phase I trials has been to gather together patients with, say, lung cancer and assume that all carry the relevant mutation. That is because such trials are concerned mainly with testing a drug's safety, not its efficacy. The volunteers are usually happy to go along with this. But the odds are not good. On average, fewer than 5% of participants in phase I trials respond successfully to the treatment.

Many scientists think this approach is a wasted opportunity. They believe that matching volunteers' genetic profiles to the drugs being tested will not only be better for the volunteers, but may also speed up the trials, and save millions of dollars in the process. One such is Apostolia-Maria Tsimberidou of the University of Texas's MD Anderson Cancer Centre, in

Houston. And her preliminary results, presented this week at a meeting of the American Society of Clinical Oncology in Chicago, suggest she is right.

On target?

Dr Tsimberidou and her colleagues selected volunteers with late-stage cancer whose tumours were caused by single, known mutations and did the equivalent of a phase I trial on them. In the case of the 175 volunteers for whose mutations a targeted therapy existed, it was given. The remaining 116 received traditional treatment. Of those in the targeted-trial group, 29% responded positively to the therapy. (The tumours of four disappeared altogether.) Only 5% of those on untargeted drugs showed improvements-precisely in line with the historical figure. Those on targeted drugs also responded for longer than those who were not (five months, as against two months, on average). And they lived for 13 months compared with nine.

Dr Tsimberidou cautions that the data, though encouraging, need to be qualified. Since her patients were not assigned to the targeted and untargeted groups at random, the gold standard for clinical trials, some hidden variable, rather than the treatment, may explain the different outcomes. The untargeted group might, for example, have been sicker to start with. They did, indeed, have higher initial levels of lactate dehydrogenase, an enzyme associated with tissue breakdown, so this possibility should not be discounted. However, those on targeted therapy did better, compared with their reactions to previous treatments, than those who were not.

Not surprisingly, drug companies are taking an interest in the findings. If a hefty proportion of patients in an early trial show a robust response to a drug, its developer may be able to skip phase II, the first real look at a drug's pharmacological credentials, and jump straight to a phase III trial-the ultimate test of efficacy. This might save a company several years of clinical studies, and an awful lot of money.

Widespread adoption of the new approach may, however, be difficult. Tests to detect cancer-causing mutations are still in their infancy. Many such mutations have not yet been identified, and even when a known mutation is found in a tumour, drugs to block its effects may be unavailable. On top of that, many patients will not participate in a trial that requires the collection of an additional sample from their tumour, for this is an invasive, painful and potentially dangerous procedure. Indeed, one in ten of the applicants for Dr Tsimberidou's trial was unable to provide samples which could be tested for their molecular make-up.

However, Johann de Bono and his colleagues at the Royal Marsden Hospital, in London, think that they have found a solution to this problem. Rather than probe tumours directly, they can test bits of tumour DNA that float in the bloodstream, and identify genetic mutations in this way with nearly the same accuracy as the direct method provides. If these preliminary results are confirmed, more patients with advanced cancer will have been offered a tantalising glimmer of hope.

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The Neolithic

Boom-time machine

A new technique lets archaeologists reconstruct the past in greater detail

THAT economic expansion leads to building booms seems to have been as true 6,000 years ago as it is now. When agriculture came to Britain, it led to a surge of construction as impressive-and rapid-as the one that followed the industrial revolution.

Which is all a bit of a surprise to archaeologists, who had previously seen the arrival of the Neolithic as a rather gentle thing. But that may be because of the tools they use. Radiocarbon dating provides a range, often spanning 200 years or more, rather than an exact date for a site. Stratigraphy, which looks at the soil layers in which artefacts are found, tells you only which ones are older and which younger. None of these data is precise. They do, however, limit the possible range of dates. And by using a statistical technique called Bayesian analysis it is possible to combine such disparate pieces of information to produce a consolidated estimate that is more accurate than any of its components. That results in a range that spans decades, not centuries.

A team led by Alex Bayliss, from English Heritage, a British government agency, has just used this technique to examine digs from hundreds of sites around Britain. The results have caused them to reinterpret the Neolithic past quite radically.

Agriculture seems to have arrived fully formed in what is now Kent, in the south-east, around 4050BC. The new culture spread slowly at first, taking 200 years to reach modern-day Cheltenham, in the west, but over the following five decades it penetrated as far north as Aberdeen. Soon afterwards, causewayed enclosures (circular arrangements of banks and ditches hundreds of metres across-see picture) began springing up all over the country.

Until now, archaeologists had assumed that these were built over the course of centuries. Dr Bayliss's work suggests they were the product of two booms, each just a few decades long-for the Neolithic seems to have seen its share of busts, too.

The team's work offers such a sharp picture of the past that it is possible to trace the histories even of individual communities, such as one in Essex whose inhabitants built, used and then abandoned an enclosure within the span of a single generation.

English Heritage now plans to apply the technique to another murky era of British history, the early Anglo-Saxon period between 400AD and 700AD. In principle, the method can be applied to any archaeological site, and several groups of researchers around the world are working on similar projects. But, fittingly for a discipline that deals in centuries and millennia, the revolution will be a slow one. Unlike traditional radiocarbon dating, which can be bought off the shelf, Dr Bayliss reckons it takes between three and four years to train a graduate researcher to use the new technique properly.

Fundamental physics

Antimatter of fact

Researchers at CERN have held on to anti-atoms for a full quarter of an hour

READERS who were paying attention in their maths classes may recall that quadratic equations often have two solutions, one positive and one negative. So when, in 1928, a British physicist called Paul Dirac solved such an equation relating to the electron, the fact that one answer described the opposite of that particle might have been brushed aside as a curiosity. But it wasn't. Instead, Dirac interpreted it as antimatter-and, four years later, it turned up in a real experiment.

Since then antimatter-first, anti-electrons, known as positrons, and then antiversions of all other particles of matter-has become a staple of both real science and the fictional sort. What has not been available for study until recently, however, is entire anti-atoms. A handful have been made in various laboratories, and even held on to for a few seconds. But none has hung around long enough to be examined in detail because, famously, antimatter and matter annihilate each other on contact. But that has now changed, with the preservation of several hundred such atoms for several minutes by Jeffrey Hangst and his colleagues at CERN, the main European particle-physics laboratory near Geneva.

The reason this is important is that Dirac's equation is misleading. Antimatter cannot be the perfect opposite of matter, otherwise neither would exist at all. If they truly were perfect opposites, equal amounts of the two would have been made in the Big Bang, and they would have annihilated each other long since, leaving only light and other forms of electromagnetic radiation to fill the universe. That galaxies, stars and planets-and physicists to ponder such things-exist therefore means there is a subtle asymmetry between matter and antimatter, and that nature somehow favours the former.

Two such asymmetries have indeed been found. But neither is big enough to explain why so much matter has survived. Being able to look at entire anti-atoms might give some further clue.

Last November the ALPHA collaboration at CERN, which Dr Hangst leads, managed to put positrons into orbit around 38 antiprotons-thus creating anti-hydrogen atoms-and then held on to them in a magnetic trap for a few tenths of a second. Now, as they report in *Nature Physics*, the researchers have used their device to preserve anti-hydrogen for 16 minutes (aeons in atomic-physics terms). This gives the anti-atoms plenty of time to settle into their ground state, the most stable condition a particle or atom can attain. As a result, Dr Hangst and his colleagues can look in a leisurely manner for novel ways that antimatter might differ from the common-or-garden variety.

Their first experiment will involve nudging the trapped anti-atoms with microwaves. If the frequency of these microwaves is just right, they will flip an anti-atom's spin. That reverses the polarity of the atom's magnetic field and ejects it from the trap. The frequency needed to do this can then be compared with that which flips the spin of an ordinary hydrogen atom. If the two turn out to be different, it will point towards the nature of the mysterious cosmic asymmetry.

Besides being of huge interest (it would, after all, be a legitimate answer to the question "why are we here?"), such a result would also have a pleasing symmetry of its own. The original discovery of antimatter was a nice example of theory predicting an undiscovered fact. This would be a fact that repaid the compliment by predicting an undiscovered theory.

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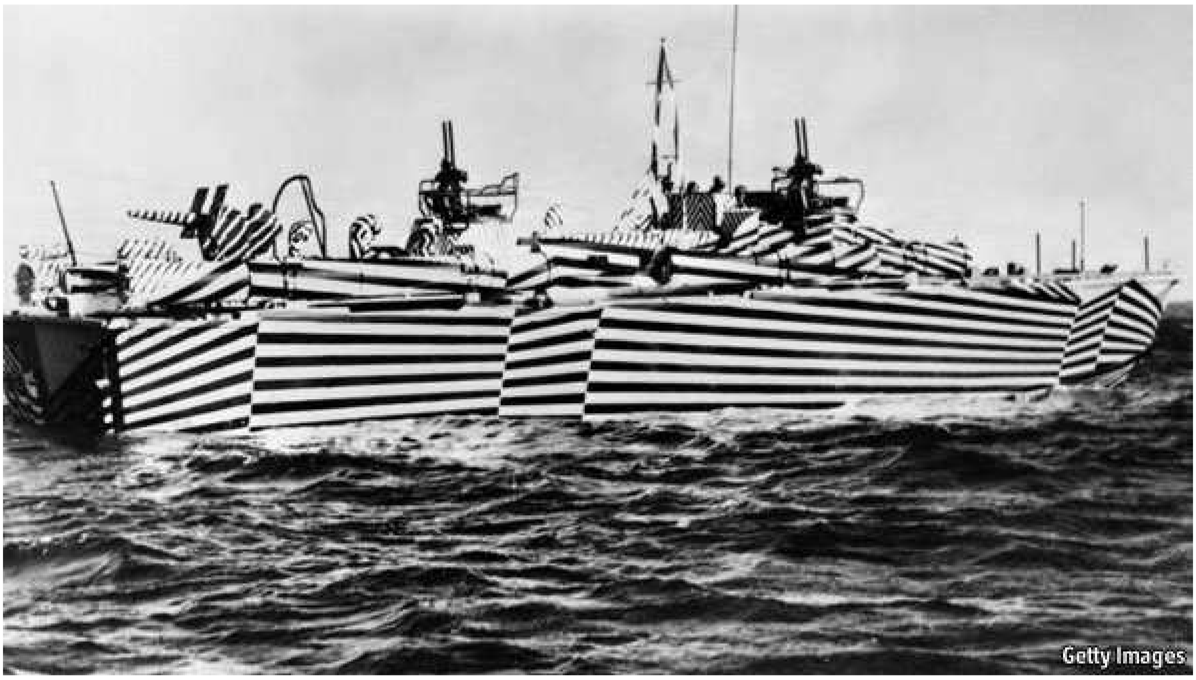
Military camouflage

That old razzle dazzle

How to confuse the enemy about how quickly you are travelling



IN THE second world war, many Allied ships were painted with dark and light stripes, and other contrasting shapes, making them look a bit like zebra. The idea was to distort an enemy submarine commander's perception of the ship's size, shape, range, heading and speed, so as to make it harder to hit with the non-homing torpedoes of the period. These had to

be pointed not at the target directly but, rather, at the place where the commander thought the target would be when the torpedo arrived. At the time, though, it was only an educated guess that this so-called dazzle camouflage would work.

Now someone has actually tested it and the short answer is that it does work-but not in the way that Allied navies thought it did. Ships move too slowly for dazzle camouflage to be effective. However, it might well have a role in protecting faster-moving vehicles, such as military Land Rovers.

Nicholas Scott-Samuel, of the University of Bristol, and his colleagues, came to this conclusion by asking volunteers to watch patterned rectangles cross a computer screen. Some of the rectangles had horizontal stripes inside them. Some had vertical stripes. Some had zigzags. And some had checks. Others, acting as controls, had no internal patterns. Each test involved a jazzy rectangle crossing the screen either before or after a plain one. Volunteers had to estimate which of the two was travelling faster.

In fact, in all cases, the two rectangles travelled at the same speed. But the researchers varied the conditions in other ways, without telling the participants. Sometimes both rectangles travelled slowly, at just over 3Âº of arc a second from the observer's point of view, as a ship might. Sometimes they travelled much faster, at 20Âº a second, mimicking the way a land vehicle moves. The jazzy rectangles also came in different flavours. Some were low-contrast (ie, not very jazzy at all) and some high-contrast.

The upshot, as Dr Scott-Samuel reports in the *Public Library of Science*, was that participants were not fooled by slow-moving rectangles, nor by low-contrast ones. Fast-moving, high-contrast shapes, however, did befuddle them. On average, an observer reckoned that such a fast, jazzy rectangle was going 7% slower than was actually the case.

Ships, therefore, travel too slowly for dazzle camouflage to work. In any case, modern torpedoes and missiles are guided to their target electronically. But 20Âº a second corresponds to the perceived movement of a vehicle 70 metres away that is travelling at 90kph. That is precisely the sort of distance from which an unguided rocket-propelled grenade might be fired at a lightly armoured military vehicle, and just the sort of speed such a vehicle might be travelling at. Perhaps the answer, then, is for modern armies to buy their Land Rovers second-hand from game parks, which often paint them in zebra stripes for effect. Whether real zebra got their own jazzy stripes to confuse predators has yet to be determined.

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The Grantham prize for reporting on the environment

James Astill has won the Grantham prize for his special report on forests, "The World's Lungs" (September 25th 2010). His report showed how forests are undervalued, even by those who live in them, and suggested ways of preserving them.

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The Venice Biennale

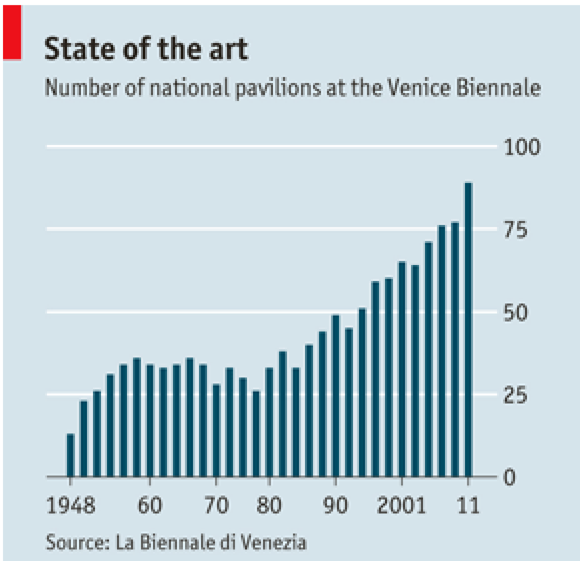
Art as a political game

Competition between artists at the world's biggest art event has never been more fierce. But what happens in the Biennale's national pavilions?

EVER since the Venice Biennale was launched in 1895, individual countries have offered their artists a showcase in national pavilions. Some are financed through their culture ministries, such as Italy's, others, like Britain's, through the ministry of foreign affairs. The Ukraine pavilion is paid for by a private collector, Poland's via multiple sources. For 55 years there were fewer than 20 entrants, but in 1950 the number began to grow. This year, despite last-minute cancellations from Bahrain and Lebanon, there are 89 national pavilions, the highest number ever and up from 77 two years ago, proof of the global spread of contemporary art.

The scale of the Venice Biennale means that artists, cultural institutions and individual countries all vie, not just for attention, but for international recognition. The national pavilions take many forms, yet only a few make any real impact.

The fairground atmosphere puts a premium on art as a memorable experience rather than as a precious object. Pavilions that offer a convincing conceptual environment are the most celebrated. A number of veteran exhibitors have chosen this route, including Germany, which this year won the coveted Golden Lion award, the fair's highest honour. But the most popular among artists is the Swiss pavilion. Thomas Hirschhorn's "Crystal of Resistance" (pictured above) creates an idiosyncratic universe of ready-made stuff. Anarchic and politicised rather than orderly and neutral, the pavilion defies Swiss stereotypes. Mr Hirschhorn is an independent spirit who refuses to pander to political authority, fashion or the art market. His installation is filled with broken glass, silver foil, cardboard, Q-tips, plastic chairs, old mobile phones and colour printouts of low-resolution war photos, all held together by brown duct tape, a recognisable Hirschhorn motif. It is the antithesis of a boutique displaying luxury goods.



An unexpected political statement is another way to make your mark in Venice. Nowhere has this been done more effectively than in the Polish pavilion which has been given over to Yael Bartana, an Israeli video artist. The pavilion presents a trilogy of films about the Jewish Renaissance Movement, a political group founded by the artist that calls for the return of Jews to eastern Europe. Poland's embrace of Ms Bartana's ingenuity is regarded as a sign of graceful nationhood and highly appreciated by art-world cognoscenti.

By contrast, predictable political gestures invariably come across as grandiose or hollow. Outside the American pavilion, Allora & Calzadilla, a young artistic duo who live in Puerto Rico, have installed "Track and Field". An Olympic athlete activates a treadmill mounted on an overturned military tank. The message that war goes nowhere is as dreary as the racket generated by the work when it is moving. More successful is the sculpture that the artists have installed inside the pavilion. "Algorithm" is both a pipe organ and a fully functioning ATM machine. When art lovers withdraw euros from the work, they find themselves engulfed by booming hymn-like chords.

Given the ongoing tumult in the Arab world, Saudi Arabia's pavilion has elicited comment, not least because it was given over to two sisters who forgo the veil when they travel abroad. Shadia and Raja Alem, an artist and a writer, have installed a large-scale sculpture entitled "The Black Arch". The work makes reference to Mecca, but it is not clear whether they see their art as subordinate to religion or vaguely in competition with it.

Newcomers sometimes think that their pavilion should represent their nation as if their artists were civil servants employed by the tourist office. The Azerbaijani offering suffered this fate. Aidan Salakhova, an Azeri artist based in Moscow, displayed two sculptures: "Waiting Bride", which shows a woman covered in a black veil, and "Black Stone of Mecca", a marble sculpture that looks like a giant vagina. Ilham Aliyev, the Azeri president, however, took umbrage at her work. The sculptures have been shrouded in white sheets to the amusement of many visitors, and are soon to be removed.

Excuses can be made for art-world neophytes, but few understand why this year's Italian pavilion looks like an amateur art bazaar in a suburban mall. Curated by Vittorio Sgarbi, an art historian better known as a pompous television personality, it is entitled "Art is not Cosa Nostra". If the national pavilions often reveal a country's attitude to art-as an autonomous creative activity, a sign of innovation, or even a public relations or propaganda tool-visitors to the grandmother of all biennials will be astonished that Italians appear to think contemporary art is like the thoughtless knock-offs found in cheap shopping arcades.

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Indian foreign policy

Hard questions

India wants to be a power in the region

Does the Elephant Dance? Contemporary Indian Foreign Policy. By David M. Malone. *Oxford University Press; 425 pages; $45 and pound25.* Buy from Amazon.com, Amazon.co.uk

ONE day India will be a great power. Its demography, nukes and growing economy make that almost inevitable. Outsiders, especially in the West, promote its heft so it can serve as an emerging rival to China. Look at the itineraries of world leaders, such as Barack Obama late in 2010, who troop to Delhi to say India deserves a permanent seat on the United Nations Security Council, and it may seem the country has already arrived.

Yet, as David Malone clearly sets out in his brisk survey of its foreign policy, there is a long way to go before the Indian elephant is really dancing. Its international policy is still mostly reactive, incremental and without any grand vision. Its few diplomats are good, but terribly overstretched. The world's biggest democracy is coy to the point of feebleness in promoting its values abroad. And its big but ill-equipped armed forces, perhaps the navy aside, trouble no military planners outside of South Asia.

It is easy to see why. India's long history of being invaded, and its preoccupation with holding itself together as a viable, democratic state, have left it little scope for acting overseas. Indians, like Americans, can be insular, believing that their huge country is the centre of the world. Its few leaders who bothered seriously with foreign matters, notably Jawaharlal Nehru, the brilliant and charismatic first prime minister, fell into moralising about others' wicked deeds and tried to avoid being embroiled in the cold war, but he did little to promote national interests. India still rues his baffling early decision to reject an offer of a permanent Security Council seat.

Yet India's biggest weakness, as Mr Malone rightly sets out, is in its own region. The trauma of partition ensured that relations with Pakistan would long be dreadful, and India has shown admirable restraint in the face of bloody provocations from across the border. But as the local hegemon it should be doing much more to foster economic ties and stability all over its back yard. Instead relations with all its neighbours, with the exception of a couple of minnows like Bhutan and the Maldives, are mostly sour, and regional trade is pitiful. Until India shows more charm-or strength-to those nearby, distant powers are unlikely to take its global pretensions very seriously.

The author, until recently Canada's high commissioner to Delhi, has a breadth of knowledge and makes his case well. He might have heeded his own advice and spent more time on India's biggest headache next door. The section on Pakistan, just six of 425 pages, is too slight for that troubling relationship. He might have done more, too, to justify his optimism that war between Pakistan and India is now less likely "than ever". After all, violent confrontation between the two nuclear powers flares repeatedly. The shifting relations with an increasingly radicalised and troubled Pakistan-American feeling is certainly cooling towards the powers in Islamabad-will also affect India's foreign policy in time.

Mr Malone concludes that India will develop no grand foreign-policy vision, opting instead for pragmatism guided by economic interest. The hunt for oil and other energy, in the Middle East, Central Asia and Africa, mean a greater international reach and more competition with China. India will resist Western pressure to be any sort of counterweight to the much bigger power to its east, while at the same time expanding its trade with the rest of Asia. As for promoting values, India will try to show itself as a model of rapid economic growth and tolerant democracy. The elephant's dance will, in the end, be the great power of its example.

The politics of Conservatism

King of the c's

The future after Margaret Thatcher and George Bush

Conservatism. By Kieron O'Hara. *University of Chicago; 375 pages; $29.95. Reaktion Books; pound19.95.* Buy from Amazon.com, Amazon.co.uk

CONSERVATISM is the leading force in British politics today and one that is anxiously awaiting resuscitation in America. But what does a modern Conservatism consist of, after George Bush's flirtation with the neocons and Margaret Thatcher's small-state catechism?

This is the Snark that the author sets out to hunt in a wide-ranging investigation into what Anglo-Saxon Conservatism might be. Kieron O'Hara, a British academic, has published several guides to modern Conservative thinking. His latest survey is rich in examples of how its ideas and instincts wax and wane in practice.

One of the odder distinctions within Conservatism is the disagreement about whether it is an ideology at all, worthy of a capital C, or simply a disposition or identity, with a small c, which can tolerate an awful lot of difference. One of the phrases David Cameron (a cautious admirer of the author's previous work) embraced in his audacious leadership bid was "change to win": a notion that plays on the ambiguity at the heart of Conservative thinking, namely that change is welcome only for a particular purpose.

With the ever-adaptable Adam Smith as his ally, Mr O'Hara is sceptical that the change-resistant definition is meaningful. At the same time, he is cool about the ultra- Hayekian argument that defines Conservatism as an "anti-ideology". Like many modern British Conservatives, Mr O'Hara is influenced by Friedrich Hayek in his critique of the state's efficiency, while offering a reminder that the author of the "Road to Serfdom" was given to epic hyperbole. Whatever the shortcomings of excessive planning and social democracy, they have not proved a route to enslavement. Right-wing rhetoric derived from the need to "set free" people who believe themselves free already has become outdated.

That leaves Mr O'Hara's ideal form of Conservatism as a decaffeinated construct. He sees the job of the modern believer as "asking hard questions about well-meaning schemes" and evinces distrust in grand projects like the present coalition's attempt to influence social mobility. His other judgments have the ring of hindsight, especially the prescription that Conservatives should oppose complex innovative financial arrangements lest they turn out to be dangerous to national economic well-being. No kidding. The difference between innovation and recklessness is rarely as apparent as this account suggests.

Excitable neocons are treated with disdain: "a case of the social engineering that the doctrine (of Conservatism) is supposed to deplore." This is not wholly true. Conservatism is not defined by a tendency to stand by while people's aspirations for more democratic societies are crushed: that is isolationism, a doctrine with an even more accident-prone history.

"Democracy seems to have been a fleeting fad in the America-influenced parts of the Middle East," Mr O'Hara concludes. Not so fast, sir. Moderate Conservatives like Mr Cameron have also found themselves drawn to the support of the Libyan opposition, despite an innate suspicion of neo-connery. The evolving foreign policy of a new generation on the right deserves more thoughtful coverage.

An intriguing aspect of this survey is that the instincts of its author-suspicious of untested schemes, ambivalent about the management of change, in favour of what Willy Brandt, the most venerated SPD German chancellor, termed the "policy of small steps"-is exactly where many natural Conservatives feel comfortable. Alas, this underestimates the driving force of political life and the need to maintain momentum against opponents. That is as old a challenge to the politician as the art itself, and not easily cast aside.

The general reader might welcome a little more discussion of what individual practitioners bring to the party. What, for example, would Thatcherism have been without the forcefulness of the woman who relished upsetting the crockery in the grand dining room of her Tory rivals? How would Reaganism be remembered if it hadn't had that dose of schmoozy charm blended with tough guile?

"Conservatism" is a survey of commendable breadth. It captures the essence of a creed that so often decries change, but has proved remarkably adept at surviving it. Life under a government run by the author would be fastidious, incremental and pragmatic: a sort of John Major for the 21st century. Fine in theory, but modern Conservatism can't afford to be quite so dull.

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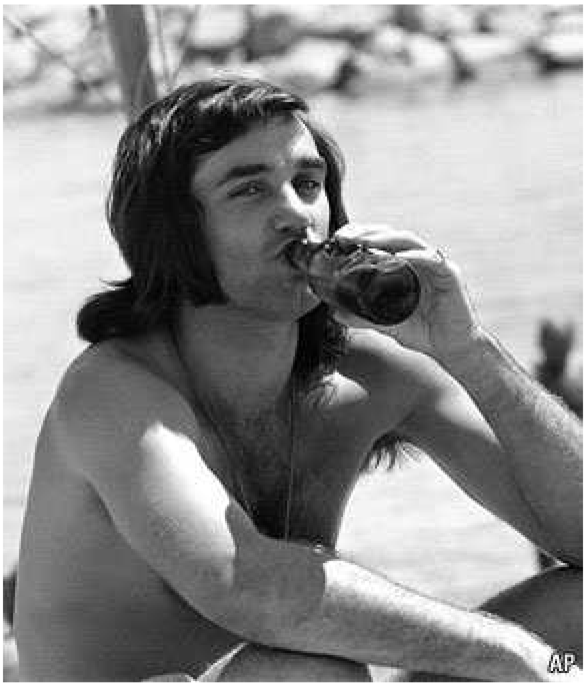
George Best

Achilles heel

Celebrity and the media

Babysitting George. By Celia Walden. *Bloomsbury; 272 pages; pound16.99.* Buy from Amazon.co.uk



IN THE 1960s George Best's explosive talent brought football from the back pages of newspapers to the front. But it was his volatile private life that kept him in the headlines until he drank himself to death in 2005.

Celia Walden, now an established journalist and author, witnessed the final months of Best's decline when she was sent to "babysit" him as a junior reporter for the *Mail on Sunday*. Her task was to stop him from talking to other hacks and make him honour his contract as their star columnist. "Babysitting George" is a memoir of their unusual relationship. This is no sports book, nor a sentimental fable, but a look at the inside workings of the media and celebrity through the cracks of a fallen hero.

Best had a love-hate relationship with the press, alternately embracing and rejecting the attention. Ms Walden remembers finding him in a hotel bath, fully clothed and drunk, covered in sodden grey newspaper mulch-a man destroyed by the disintegration of his own image. His life was a carnival. Following a split from his long-suffering wife, Alex, he yo-yoed between drunken oblivion and rehab and reconciliation. Ms Walden couldn't control Best's inebriated existence, but, with pressure from her mercenary boss, she could influence how he was represented in the news.

Ms Walden believes that "celebrities, for us, exist solely to entertain and be judged." It comes with a pang of conscience, but *Schadenfreude* sells newspapers and she had a job to do. She witnessed rows with his wife, his duplicitous nature and occasionally violent binges and even took his new girlfriend, Gina, to a safe house to encourage a reunion between him and Alex: the front-page story her boss wanted.

This book is built on celebrity gossip but Ms Walden can be reflective too, questioning whether the press was right to infiltrate his life. Her most depressing revelation is that Best had made the decision to surrender to his alcoholism, knowing it would kill him, and he wanted to be left to it. But the newspaper kept up the coverage until public interest dwindled. As Ms Walden says, "easily palatable messes are great fun, but [readers] aren't so keen on gory close-ups."

This memoir doesn't conceal the gory details, but Ms Walden smooths the rough edges with a humanity that pulls the story away from tabloid sensationalism. Cynics will wonder why she is exhuming his ghost six years later. Whether her motivation is financial or sentimental, "Babysitting George" offers the reader a touching insight into George Best the man-and the media circus that made him.

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Botanic illustration

Flower child

Creating an 18th-century garden

The Paper Garden: An Artist Begins Her Life's Work at 72. By Molly Peacock. *Bloomsbury; 397 pages; $30. To be published in Britain in July; pound20.* Buy from Amazon.com, Amazon.co.uk

MARY DELANY-aristocrat, gardener, prodigious letter-writer, woman of fashion and friend to George Frideric Handel, Jonathan Swift and King George III, died childless more than 220 years ago. Yet she left a multitude of vivid, vital offspring: 985 botanically accurate and startlingly beautiful portraits of flowers in bloom, collectively known as the "Flora Delanica".

Delany started this project as a widow in her eighth decade. Despite grief, ageing hands and eventually failing eyesight, she invented a new method for creating her flower "mosaicks": collaging layers of cut, painted paper onto a dense black background, matching her materials to the papery fineness of a flower's petal. In Molly Peacock's illustrated biography, the results leap out of the darkness of the past, pulsating with life.

Ms Peacock is a noted American poet, and it shows in her approach: she repeatedly uses the mosaicks as a simile for the rich and varied life of her subject, which she describes as "so shapely that it feels like a complete work of art, cut and pasted". Certainly parts of the narrative read like an 18th-century novel: at 17, Delany was married by her wicked uncle to a 60-year-old drunken squire, who tore her away from her family to live in a rotting Cornish castle. After he died in bed, his face "quite black" beside her, she had just enough money to live independently, setting up home with a friend in the London suburbs, spending their days embroidering, writing and fluttering at the fringes of the Georgian court. In her 40s, she married an Irish clergyman, and spent 25 happy years gardening at his estate outside Dublin, before widowhood, and her great artistic project, began.

These biographical bones are convincingly drawn, but they are only half the story. Ms Peacock is as interested in exploring the saving nature of creativity: when we concentrate exclusively on the minutiae of making, she says, "all else falls away, all that would tear at us". So each chapter begins with a detailed inspection of one mosaick, which the author then weaves into her subject's life. Sometimes this technique is revelatory: at the start of the chapter delineating Mary's friendship with Ann Donnellan, Ms Peacock describes the portrait of a pair of Canada lilies as having the "lanky feel of two tall, talky girls"; instantly the young women spring to life. At other times, she strains too much for effect: is a hole in an otherwise perfect leaf really Delany's expression of horror at her first, appalling marriage?

Ms Peacock also weaves herself into the pages, periodically stepping away from Delany to describe her own alcoholic father, a late, happy marriage, her terror that her husband's cancer will recur. It seems she embarked on biography as a cure for this fear. Delany survived her husband's death by applying the "balm" of art; by the end Ms Peacock feels she might do the same. Some might resent this authorial intrusion. But then this book aims to be less biography, more an extended prose poem. Like flowers built of a millefeuille of paper, Ms Peacock builds a life out of layers of metaphor. The result is convoluted, but as strangely moving as the "muddled blooms" of Mrs Delany's art.

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The French and seduction

Smouldering

Strauss-Kahn may change everything

La Seduction: How the French Play the Game of Life. By Elaine Sciolino. *Times Books; 352 pages; $27.* Buy from Amazon.com

"SEDUCTION is not a frivolous thing," Arielle Dombasle, a coquettish French actress, tells the author: "It's war." Elaine Sciolino, a Paris correspondent for the *New York Times*, who has written, among other troublespots, about Iraq and Bosnia, took this as a challenge. Putting aside her American puritan reflexes, Ms Sciolino kits herself out in towering heels and a black, silk wrap dress, and tries to get to grips with France's culture of seduction. The curse is that this book misses the greatest sexual shock to French public life: the arrest in New York of Dominique Strauss-Kahn, former managing director of the IMF, on charges of sexual assault and attempted rape. But its great merit is that it gets the topic right, sketching the background to a culture in which sensuality defines so much of public life.

Seduction in France, writes Ms Sciolino, is more than a game: it is "an essential strategy for France's survival as a country of influence". As the author navigates the salons of French diplomacy, or the elegant dinner tables of parquet-floored Paris, she meets seduction at every turn. Jacques Chirac, a former president, reaches to kiss her hand and cradles it "as if it were a piece of porcelain". A female French jurist urges her to look chic even when nipping out to buy a baguette, "because you never know". Some of the observations are well judged, if familiar: the sensuality of preparing and sharing food, or tasting fine wine; the seduction rituals of street interaction, or superior conversation; the eroticism of French perfume.

A fresher perspective emerges from the discussion of the way in which French electoral politics is also wrapped in the codes of seduction. At elections voters expect their politicians to engage in an *operation de seduction*. Valery Giscard d'Estaing, another ex-president, boasts that his smouldering look to women in a crowd was a campaign tool. Mr Chirac was also an incorrigible *seducteur* as he pressed the flesh. Viewed this way, President Nicolas Sarkozy's unpopularity today has less to do with unfulfilled promises than with the fact that he is "a case study in anti-seduction": too hurried, too direct, too belligerent to charm French voters. "Without a seductive aura to protect him," writes Ms Sciolino, "he was vulnerable."

Within such a culture, political affairs abound; but a code of silence prevails. Why? Partly, the author argues, it is a collective effort to keep ugly truths from tarnishing France's seductive image. Partly it is because "the French believe in the right to pleasure", so tolerate pleasure-seeking behaviour. They simply cannot understand the way Americans link deceiving a spouse and misleading an electorate. This is why Mr Strauss-Kahn's womanising was seldom reported. In the

light of his arrest, Ms Sciolino's discussion of rumours about his libertine sexual ways is a useful corrective to the "everybody knew" thesis. The former IMF boss certainly comes across as a persistent seducer. But a potential rapist? Even this well researched book makes no reference to the claim of sexual assault that has since resurfaced against him by a French writer, Tristane Banon. The only hint at coercion is a blogger's comment that DSK "often comes close to harassment".

At times in this playful book the author has such fun with her theme that she risks overstretching the point. French diplomacy is "one never-ending seduction"; market stallholders and shoppers "seduce each other" over ripe tomatoes or fat lemons. She even describes battles with bureaucrats as an exercise in seduction, thanks to the promise of pleasure in resolution. By the end, the author, who calls herself a "fervent feminist", is charmed rather than exasperated; France has seduced her too. The reader cannot help wondering if she would have written quite such an affectionate book had Mr Strauss-Kahn's arrest taken place before it was published.

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Correction: Among the Truthers

In our May 28th review of "Among the Truthers", Jonathan Kay's book on conspiracy theories ("One born every minute"), we wrongly said that he does not mention "birthers". He does. Sorry.

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Jack Kevorkian

Jack Kevorkian, champion of voluntary euthanasia, died on June 3rd, aged 83

FOR most people, death starts to become interesting only with the first intimations of their mortality. As they work through the seven ages of man, their thoughts may increasingly turn to the dependence, indignity and pain that afflict so many at the end of their lives. But in youth, at least in rich countries, they are likely to be shielded from the actual giving up of the ghost, quotidian event though it is. Many indeed reach adulthood without seeing a corpse, or even the recognisably animal carcass from which their next steak or chop will be cut. Death, for them, is yucky, best not thought about. But not for Jack Kevorkian. He was fascinated by it.

It is not clear when this fascination began, but the would-be-Dr Kevorkian surely had it by the time he was attending the University of Michigan Medical School. It was there that he first proposed that condemned prisoners should, with their permission, be executed under anaesthesia to enable doctors to experiment on their bodies, before going on to harvest their organs and use them for research. A few years later, after serving as a military doctor in Korea, he would carry out studies of the human eye just as life leaves the body (the blood vessels in the cornea become invisible). He also advocated drawing blood from corpses for use in transfusions. By this time, hardly surprisingly, he was working as a pathologist.

The job, however, did not bring satisfaction. Perhaps this was because his interest in death coexisted with two other passions. One was artistic, an urge that took him from Michigan, the state to which his Armenian parents had emigrated a few years before his birth, to California. There Dr Kevorkian painted, wrote, played the flute and made a film about Handel's "Messiah", while earning a meagre living as a jobbing pathologist. He also appeared before members of the state legislature, at their request, to tell them of the merits of letting prisoners on death row choose execution by anaesthetic.

That experience, or rather the ensuing brouhaha, seems to have awakened another passion, this one for publicity. It was the relish with which Dr Kevorkian courted controversy that provided the potency of the campaign for assisted suicide which occupied the last three decades of his life.

The theory was laid out in a series of articles on euthanasia for a German journal, *Medicine and Law*. The practice followed, starting with advertisements in Detroit newspapers for "death with dignity" provided by a "doctor consultant for the terminally ill". Soon came the Mercitron and the Thanatron, "suicide machines" that enabled "clients" to inject themselves with drugs or to release a dose of lethal carbon monoxide, turning the blood cherry red and suffusing the cheeks in death with a misleadingly healthy glow.

Over 130 people died painlessly with the help of these machines and the doctor who invented them. The first was Janet Adkins, a former college instructor on disability, who resolved to kill herself the day she was diagnosed with Alzheimer's, and did so, with Dr Kevorkian in attendance, in his rusty van in a Michigan campsite. Those who followed her seemed unremarkable: a bus driver, a doctor, a supervisor at a pillow factory and so on, all terminally ill, or so they believed. Studies of those who sought out Dr Kevorkian, however, suggest that though many had a worsening illness, cancer perhaps or a neurological disease, it was not usually terminal. Autopsies showed five people had no disease at all. Those who came to him were more likely to be women than men, often unmarried and typically ill-at-ease when talking to doctors. Little over a third were in pain. Some presumably suffered from no more than hypochondria or depression.

Though censured by lawyers, clergymen and the American Medical Association, Dr Kevorkian proved difficult to stop. Frequently arrested, he would argue persuasively that he was merely helping unhappy people to carry out their own wishes. Jurors in three trials acquitted him, perhaps making him think he would for ever remain beyond the reach of the prosecutors and legislators he so loved to taunt. From the first, he made no effort to conceal his role in helping people die, sometimes notifying the police after the event and even having it filmed. Indeed, it was the televising of a tape of him actually administering a lethal injection that eventually put him in prison. But even then he publicly regretted not his actions but only his decision to conduct his own defence.

Hard cases, bad laws?

The judge who sentenced him said the trial was not about the political or moral correctness of euthanasia, it was about breaking the law. "You had the audacity to go on national television," she said, "and dare the legal system to stop you. Well, sir, consider yourself stopped." He was, though he was released on parole after only eight years of a 10-25-year sentence.

Dr Kevorkian was hardly lovable. Bombastic and arrogant, he would liken himself to Galileo, Gandhi and Martin Luther King. He revelled in opprobrium. He exploited the vulnerable. Yet he also helped people who surely wanted to die, and with reason. He is also credited with promoting hospices and the wider use of strong painkillers for the dying. Even good causes, of course, may have creepy champions.